USAID

CAIRO, EGYPT

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

**Report No. 6-263-99-003-P**
March 22, 1999

**MEMORANDUM**

**TO:** DIRECTOR, USAID/Egypt, Richard M. Brown

**FROM:** RIG/A/Cairo, Darryl T. Burris

**SUBJECT:** Audit of USAID/Egypt's Management of Residential and Office Maintenance Costs

This is our report on the subject audit. We have considered your comments on the draft report, and they have been included in their entirety in Appendix IV.

The report contains three recommendations. Recommendation No. 1 on work order satisfaction slips is closed upon report issuance. As for Recommendation Nos. 2 and 3 on overtime and employee bonuses, the Mission has already made management decisions for both recommendations. USAID/Egypt should advise the Bureau for Management, Office of Management Planning and Innovation, Management Innovation and Control Division (M/MPI/MIC) when final action is complete and seek closure from them at that time.

I appreciate the cooperation and courtesies extended to my staff during this assignment.

## Background

USAID/Egypt's General Services Office (in the Management Directorate) is responsible for managing both residential and office leases for USAID operations. As of September 1998 the Office managed over 80 residential leases for USAID employees and personal service contractors as well as leases for USAID office space. A key part of the Office's responsibilities is ensuring that residential and office space is adequately maintained.

To provide these maintenance services, USAID/Egypt entered into a five-year, cost reimbursement contract, having a maximum value of about $3.2 million, with a local, private sector, Egyptian firm.[1] Under the contract the firm provides a variety of maintenance services including:

- routine and preventive maintenance during working hours;
- emergency services by stand-by personnel on weekends, holidays, and early evenings;
- "non-standard work," such as preparing vacant residences for occupancy and partial renovation of occupied residences; and
- consultations such as inspecting new properties or examining solutions to various maintenance problems.

Per the contract, work performed by the firm is billed on work orders—with a reasonable amount of time allowed for sending out workers from headquarters and for traveling between work sites. USAID disbursed $578,040 under the contract in fiscal year 1998. Approximately 90 percent of maintenance costs were funded by host government-owned local currencies, with the remaining 10 percent funded by U.S. dollar appropriations.

## Audit Objective

The Regional Inspector General/Cairo performed this audit to determine if USAID/Egypt established control systems to ensure that funds for residential and office maintenance were used in accordance with contract terms and USAID policies and procedures.

Appendix I describes the audit's scope and methodology.

[1] The contract also has a relatively small fixed fee portion, is incrementally funded on an annual basis, and ends in November 1999.

## Audit Findings

**Did USAID/Egypt establish control systems to ensure that funds for residential and office maintenance were used in accordance with contract terms and USAID policies and procedures?**

USAID/Egypt established control systems to ensure that funds for residential and office maintenance were used in accordance with contract terms and with USAID policies and procedures—except for one requirement regarding work order "satisfaction slips" and one control over maintenance overtime costs.

Otherwise control systems were in place and operating as intended. Controls over the voucher payment process were followed without material exception. And key controls over individual work orders were also being followed: for example, work orders were pre-approved by the USAID maintenance supervisor for bonafide maintenance services; individual work order costs were reasonable; and the contractor, as required, submitted a complete package of documents for each job completed (including a copy of the work order, a computerized summary of costs, and a signed "satisfaction slip").[2]

We nevertheless identified two areas for improvement: (1) customer satisfactions slips were not always signed by the customer that received the service and (2) overtime was not pre-approved. The first area for improvement is discussed under the heading, "Satisfaction Slips Should Be Signed By the Customer." And the second area is discussed under the heading, "Better Management of Certain Costs Could Yield Savings." This latter section also discusses several other possible strategies and controls that should be considered for the new maintenance contract which will be issued after the current one expires in November 1999.

### Satisfaction Slips Should Be Signed By the Customer

Controls over the work order process require that the person requesting maintenance or repair work sign a customer satisfaction slip indicating whether or not the work requested was completed in a satisfactory manner. Our sample of 193 work orders revealed that 19 (or almost 10 percent of sample work orders) were not signed by the requester. Instead they were signed by the USAID/Egypt maintenance supervisor. Mission officials indicated this occurred for a number of reasons. In cases where the request was for residential work, a requester might not sign because he or she may not be home when the work is done; or in some cases where work to be done is of a technical nature a requester might not wish to sign because he

[2] For a summary of the complete results of our testing of the sample of 193 work orders and a projection of errors found to the universe of 3,867 work orders, see Appendix II.

may not be able to judge whether or not the work has been performed properly. The results cited above, however, include only residential work orders and only those work orders where the accomplishment of the requested work could be easily judged by the requester. We judge this control to be especially important because without the signature of the requester, virtually the entire work order process is in the hands of one mission official (from work order approval through signing off on the job) and a convenient venue for customer comments is effectively closed off. [A more detailed discussion follows the recommendation.]

> <u>Recommendation No. 1</u>: **We recommend that USAID/Egypt ensure that satisfaction slips for residential repair and maintenance are signed by the requester of the services.**

In carrying out its responsibilities with regard to residential and office maintenance, the General Services Office has developed a series of controls designed to ensure that work order requests are for bonafide maintenance services, are reasonable in cost, and are properly carried out. These controls include approval of the work order request prior to the work being done, the receipt of detailed cost data by work order, and the signing of a "satisfaction slip" by the requester of the service, indicating whether the work was completed in a satisfactory manner.

However, our random sample of 193 work orders for fiscal year 1998 revealed that 19 (or almost 10 percent of total work orders in the sample) were not signed by the requester.[3] Instead they were signed by the USAID/Egypt maintenance supervisor. In actuality, a full 28 percent of satisfaction slips for the sample work orders (or 54 out of 193) were signed by the maintenance supervisor. However, over half of these work orders were for office or warehouse activities where the maintenance supervisor was sometimes the requester of record or, alternatively, may have filled out the work order for the requester. We therefore have limited the data in this finding to residential units where it was clear that the residential requester had not signed the satisfaction slip.

Mission officials indicated that the maintenance supervisor had signed instead of the requester for a number of reasons. In cases where the request was for residential work, a requester might not have signed because he or she may not have been home when the work was done; also in the case of preparing an apartment for a new employee, that employee might not have been in country. Or in cases where work to be done was of a technical nature, a requester might not have signed because he could not judge whether or not the work was performed properly. For example, according to the maintenance supervisor, warehouse personnel prefer not to sign off for the repair of appliances in warehouse stock, because they are unable to make a technical judgement that the required repairs have been done. Other work orders may require an even higher degree of judgment: e.g., recharging fire extinguishers or changing

[3] For a projection of errors found in the audit sample to the universe of all work orders, see Appendix II.

circuit breaker panels. The 19 cases cited above, however, do not fit that profile. Residents were present, and technical judgment was not required. Mission officials could not provide a satisfactory reason as to why satisfaction slips for these 19 were not signed by the requester.

Even though we believe that whenever possible satisfaction slips should be signed only by the requester—even for office requests—we recognize that there are situations where professional judgment is called for, and the USAID maintenance supervisor may be the logical choice to sign off in such situations. We nevertheless judged this control to be especially important because without the signature of the requester, virtually the entire work order process is in the hands of the USAID maintenance supervisor (from work order approval through signing off on the job).

Without this control, it is conceivable that work orders of a non-official nature could be requested, approved, and signed off on without being detected. While we found no such occurrences in our sample, we are concerned that without this control, such work orders could be processed. In addition, completed satisfaction slips signed by the requester provide a convenient opportunity for the Mission to receive first-hand customer comment. If these slips are not filled out by the requester, this venue for comment is effectively closed off.

In discussing this finding at the exit conference, the Mission indicated that it had already taken certain steps to respond to the recommendation, by having unsigned satisfaction slips returned to the contractor's customer service representative, who would then follow up with the requester of the services. The Mission indicated that it was also considering an electronic follow-up alternative whereby the requester of the services could respond by e-mail.

## Better Management of Certain Costs Could Yield Savings

The General Services Office is charged with directing the provision of support services in the areas of residential and office maintenance in a cost effective manner. On the whole, the office has done so. Nevertheless, during the course of the audit we noted two areas in which certain cost savings may be possible: overtime costs and employee bonuses. We have projected that certain minor changes in these areas could yield savings of $80,000 over the life of a five-year contract.

### Overtime Costs:

The maintenance services contract provides that the workmen "will work overtime as necessary and with the approval of the USAID Project Officer." However, our audit revealed that the Project Officer did not formally approve overtime, and that 61 out of the 193 work orders in our sample (or 32 percent) included at least some overtime. While the contractor indicated that oral approval was usually obtained, Mission personnel told us that it did not generally approve overtime on a case-by-case basis. Instead, they said that the contractor implicitly understood when overtime could be used (e.g., for emergency calls on weekends, for finishing up work at the end of a work day, or for any work if overtime amounts involved were immaterial). One official also indicated that they did not pre-approve overtime, because bi-weekly payment vouchers (after the fact) show how much overtime was performed for the two-week period as a whole—as well as how much was done by individual workers—and that the USAID Project Officer administratively approves these costs prior to payment.

As a result, unnecessary overtime costs were incurred. We judged that 23 out of the 193 work orders in our sample (or 12 percent) were for unnecessary overtime.[4] The cost of the unnecessary overtime in the sample amounted to only $242 but when projected to the universe for fiscal year 1998 the unnecessary overtime would amount to about $4,800.[5] If controls to pre-approve overtime were in place (or alternatively tighter parameters for when overtime costs could be incurred), we estimate that savings over the period of a five-year contract could amount to $24,000.

In discussing this finding at the exit conference, the Mission indicated that it had already taken certain steps to respond to our preliminary findings: namely, the Mission now requires that the contractor obtain approval from the General Services Office whenever a work crew intends to use more than an hour of overtime on a job.

> **Recommendation No. 2: We recommend that USAID/Egypt institute tighter controls over the use of contractor overtime. Controls should apply to the current contract as well to the new contract by specification in the Request for Proposal.**

**Employee Bonuses:**

Under Federal Acquisition Regulations employee bonuses are allowable—provided they are paid per an established contractor plan, they are supported, and the amounts paid are reasonable. Per our audit, the contractor has such a plan and bonus payments were supported and reasonable in amount. Nevertheless, we believe certain savings might be possible under the upcoming contract. It is common practice for successful private firms in Egypt to pay

[4] We defined overtime performed as "unnecessary" when the work requested was of a routine or non-critical nature. For example, we judged overtime performed on the following jobs as "unnecessary:" fix water distiller, replace filters in air conditioner, repair door for wardrobe, install TV cable, etc. Our judgement as to what was "unnecessary" was conservative and therefore the total amount of unnecessary overtime could be higher than suggested above.

[5] Our sample of 193 out of a universe of 3,867 work orders amounts to a 5 percent sample. Therefore, a savings of $242 in the sample would translate into a savings of approximately $4,800 when projected to the entire universe [ $242 ÷ .05 = $4,840 ].

annual bonuses which are, on the average, two times an employee's monthly salary. Under this practice, annual bonuses for an individual employee may be considerably less than two months of salary—or considerably more—depending on that employee's performance. Public sector employees (including USAID/Egypt) are less generous. However, the audit found that the USAID maintenance contractor, which is a private sector firm, had paid its employees $40,775 in bonuses for fiscal year 1998—a figure which is equivalent to two and three quarters times the budgeted total monthly salaries of its employees.[6] And when the $40,775 in bonuses is compared to *actual* salaries paid in fiscal year 1998, the bonuses would be equivalent to 3.2 times total monthly salaries, because salaries paid were less than the amount budgeted for salaries.

This higher amount was paid because annual budgets established with USAID under the maintenance services contract permitted the contractor to spend up to a designated amount for bonuses. The approved budget for the final year of the contract (which ends in November 1999) also permits this same rate of bonus payment.

As a result of the amounts budgeted for bonuses in fiscal year 1998, USAID paid under the contract about $11,200 more in employee bonuses than would have been the norm for a successful private sector firm—using two-months-of-salary as a criterion for bonus payment.[7] We calculate that if tighter controls were placed on bonuses allowed under the contract—specifically by limiting the budget line item for bonuses to the cumulative equivalent of two months of salary per employee—we estimate that savings over the period of a five-year contract could amount to $56,000.

In discussing this finding at the exit conference, Mission officials pointed out that the audit did not cite a solid criterion that bonuses equivalent to twice monthly salaries were the norm in the private sector. They also emphasized that while bonuses are an allowable cost, they are nevertheless "negotiable," and that in any case, total bonuses paid under the contract had not exceeded amounts budgeted. And finally, they pointed out that the amount budgeted for bonuses should be based on "prevailing practices and market surveys"—even though neither the Mission nor we could authoritatively cite such a survey.

We admit that in conducting the audit we did not do a market survey, but merely related what was said to be common practice in the private sector by a number of individuals we interviewed. We agree, however, that this practice may not specifically apply to repair and

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[6] Note that we have excluded from our analysis the President's salary (because per the firm's policies he is not eligible for a bonus) as well as all employee fringe benefits.

[7] The contractor says their bonus policy gives the "highest incentive to all people to perform at their best" on the USAID contract. It is available to all of the firm's staff, excluding the President, and is paid in "six unequal yearly occasions:" four religious holidays, school entrance season, and at the end of the yearly contract. The firm regards its bonus policy as extremely successful in that all staff members "know the evaluation criteria," and bonuses are paid when employees are most likely to need extra funds.

maintenance firms and that a market survey would be necessary to establish definitively that such is the case. We have therefore revised the recommendation to read that bonuses under the new contract should be limited to an amount based on a market survey of prevailing practices in repair and maintenance firms. We recognize that employee bonuses—like any contract costs—are negotiable, and believe that a market survey would help support the negotiation of marginally lower employee bonus amounts.

> **Recommendation No. 3: We recommend that USAID/Egypt, in preparing the Request for Proposal for the new repair and maintenance contract, limit employee bonuses paid under the contract to an amount based on a market survey of prevailing practices among private sector repair and maintenance firms in Cairo.**

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**Other Matters — Billing Out Maintenance Costs:**

The Mission is considering the possibility that the new maintenance contract might allow other U.S. government agencies in Cairo to obtain services under the contract. In effect, other agencies could buy in to the contract and be billed for the work performed. Our review of office files indicated that at least one agency at post has expressed an interest in such an arrangement, and the Mission had estimated costs for USAID's provision of such services. These estimated costs, however, seem to envision billing work order costs only.

Our concern is that an arrangement which would bill only work order costs could work to USAID's detriment, in that such costs comprise a relatively small portion of total costs under the contract. In fact, for fiscal year 1998, work order costs made up only 37 percent of total maintenance costs (see Appendix III). Therefore, any arrangement which would bill only work order costs would leave other costs unpaid. For example, work orders do not include bonuses, even though they are an integral part of the salary structure in Egypt. Also fringe benefits relating to employee wages do not appear on work orders and hence would not be reimbursed. Nor do work orders include "waiting time." ("Waiting time" includes workers' time spent waiting for jobs to be received and assigned, commuting between the contractor's office and work sites, and traveling between sites.) In all, an estimated 63 percent of contract costs (as shown below on a fiscal year 1998 basis) would not be reimbursed:

**Categories of Costs Which Do Not Appear on Work Orders as a Percentage of Total Contract Costs in Fiscal Year 1998**

| | |
|---|---|
| Management Salaries | 17 % |
| Fringe Benefits | 6 |
| Bonuses | 7 |
| Other Direct Costs | 6 |
| Overhead | 15 |
| Fixed Fee | 8 |
| Waiting Time | 4 |
| **TOTAL** | **63 %** |

In conclusion, if any buy-in provision is anticipated for the upcoming maintenance contract, USAID/Egypt should consider ways of recouping at least some of the seven categories of costs listed above. Some of these costs are fixed under the current contract (e.g., Management Salaries and Fixed Fee) and would not change—at least in the short run—with increased work order billings. Others costs, however, would increase directly as work order costs increased. For example, fringe benefits and bonuses could increase as additional workers are added. Also, "other direct costs" and overhead could all increase without any form of reimbursement by agencies which would pay for work order costs only.

In other words, if other U.S. agencies in Cairo are allowed to obtain maintenance services under the upcoming contract, USAID/Egypt should make sure that these agencies pay their fair share of all contract costs.

## Management Comments and Our Evaluation

USAID/Egypt agreed with all report recommendations. In response to Recommendation No. 1, the Mission has established detailed procedures to ensure that satisfaction slips are signed by the requestor of maintenance services and has issued a staff notice to reinforce these procedures. As a result, Recommendation No. 1 is closed on report issuance.

As for Recommendation No. 2, the Mission instituted tighter controls on the use of overtime and will ensure the existence of such controls under two new contracts to be issued on December 1, 1999. Based on the Mission's plan of action, a management decision has been reached. USAID/Egypt should advise M/MPI/MIC when final action is complete.

As for Recommendation No. 3, the Mission agreed to limit employee bonuses paid under the new contracts based on a market survey of prevailing practices in the private sector. Based on the Mission's plan, a management decision has been reached. USAID/Egypt should advise M/MPI/MIC when final action is complete.

# SCOPE AND METHODOLOGY

## Scope

We audited USAID/Egypt's internal management controls for ensuring that funds for residential and office maintenance were used in accordance with contract terms and with USAID policies and procedures. The audit covered $578,040 in funds disbursed by USAID/Egypt in fiscal year 1998 for maintenance and repair costs under a contract with a local firm. We did not conduct a financial audit of these costs as the firm is subject to an annual non-federal financial audit. The audit was limited to a review of controls over repair and maintenance costs and to the overall reasonableness of these costs. We obtained an understanding of these controls, determined whether they were placed in operation, and evaluated control risk.

The audit was performed in accordance with generally accepted government auditing standards and was conducted at USAID/Egypt from September 27, 1998 through January 27, 1999.

## Methodology

To answer the audit objective, we reviewed controls over the voucher payment process for 26 bi-weekly vouchers against which funds were disbursed in fiscal year 1998. Among other tests, we reviewed whether the USAID maintenance supervisor had signed administrative approval statements, whether vouchers showed budget line items as per the contract and whether voucher line items were supported by schedules and/or invoices. In addition we reviewed the reasonableness of voucher cost categories and compliance with various contract requirements.

We also reviewed controls over the work order request process for fiscal year 1998. Using statistical sampling software, we selected a random sample of 193 work orders out of a universe of 3,867 for detailed testing. For the 193 work orders in our sample we reviewed whether:

- the work order was approved by the USAID maintenance supervisor;
- a complete work order package, including cost data and "satisfaction slip," had been provided to USAID;
- overtime had been charged and approved;
- the satisfaction slip for the job was signed by the requester;
- work order costs were reasonable; and
- the work order was for bonafide repair and maintenance expenses.

In addition we reviewed for reasonableness all work orders over $2,000 in the "miscellaneous" category, a category which made up 31 percent of work order costs.

Where problems were found, we reviewed to the extent practical the causes of the problems. This included additional interviews with Mission and contractor personnel and the review of additional documentation.

In evaluating the results of the fieldwork, we generally considered error rates of 5 percent or more of the audit sample to represent significant problems. This threshold reflects our judgment about the extent of compliance that is practical and cost effective to achieve. In this report, Egyptian pounds (LE) have been converted to U.S. dollars at a rate of LE 3.4 = $1.00.

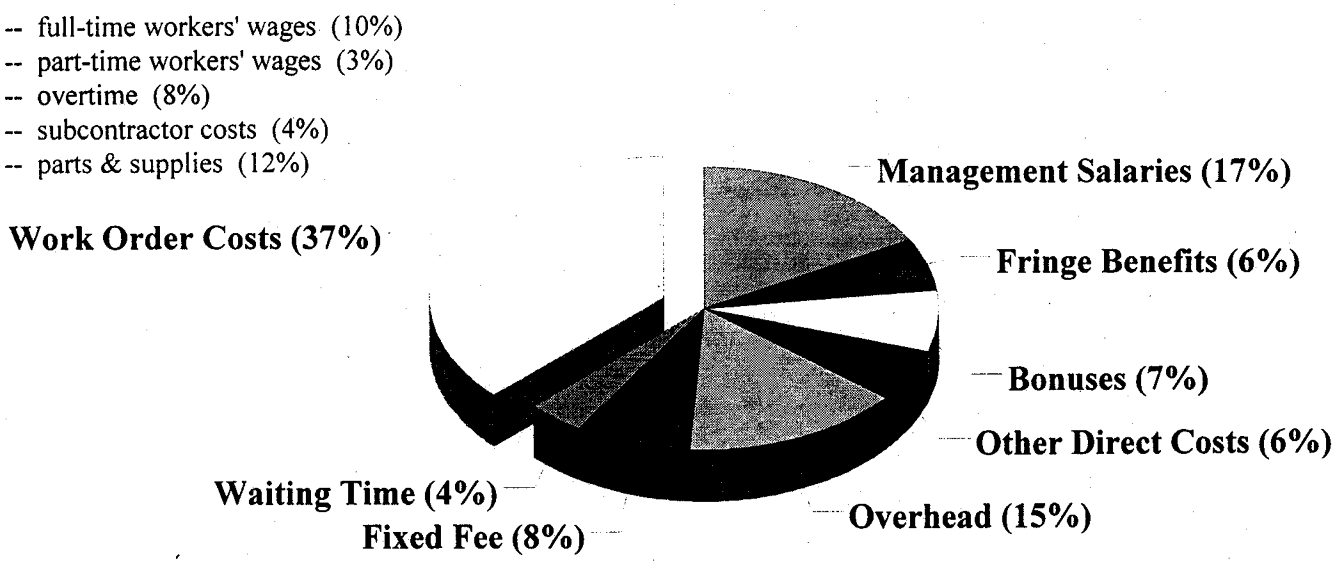
## Projection of Errors Found in Audit Sample to the Universe of Work Orders for Repair and Maintenance Costs

(USAID/Egypt - Fiscal Year 1998)

| Type of Error | Number of Errors in Sample | Projected Number of Errors in Universe (with 95% Confidence) | | | % of Errors in Population: Best Estimate |
|---|---|---|---|---|---|
| | | Lower Limit | Best Estimate | Upper Limit | |
| Work order not approved by USAID maintenance supervisor | 8 | 54 | 161 | 266 | 4.15% |
| Complete work order package (cost data, etc.) not provided to USAID | 1 | 1 | 21 | 58 | 0.52% |
| Overtime performed was unnecessary | 23 | 288 | 461 | 633 | **11.92%** |
| Satisfaction slip was not signed by requester (residential units) | 19 | 222 | 381 | 539 | **9.84%** |
| Work order costs were not reasonable | 4 | 4 | 81 | 155 | 2.07% |
| Work order was not for bonafide repair/maintenance expense | 3 | 3 | 61 | 125 | 1.55% |

**Note**: The audit tested a random sample of 193 out of universe of 3,867 work orders, for which USAID disbursed funds under its repair and maintenance contract in fiscal year 1998 (sampling methodology is discussed in Appendix I). We consider error rates in excess of five percent to represent significant problems, and have put in bold print those percentages which exceed that rate. Note that data shown in the table relate to both office and residential units, *except* for data on satisfaction slips, which relate to residences only (see discussion on pages 4 and 5 in the text).

# Work Order & Other Costs
# As a % of Total Maintenance Costs
(Based on Fiscal Year 1998 Data)




Note: The percentages above are based on amounts disbursed by USAID in fiscal year 1998 for contractor bi-weekly billings. During this period USAID/Egypt disbursed $578,040 for repair and maintenance services under the contract.

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO. EGYPT

21 MAR 1999

**MEMORANDUM**

TO: RIG/A/Cairo, Darryl T. Burris

FROM: DIR, Richard M. Brown /signed/

SUBJECT: Audit of USAID/Egypt's Management of Residential and Office Maintenance Costs - Draft Report dated February 21, 1999

Following is the Mission's response to the three recommendations subject draft report:

**Recommendation No. 1: We recommend that USAID/Egypt ensure that satisfaction slips for residential repair and maintenance are signed by the requester of the services.**

**Mission Response**:

Controls over the work order process require that the person requesting maintenance or repair work sign a customer slip indicating whether or not the work requested was completed in a satisfactory manner.

In their response dated March 7, 1999, MGT/EXO has established detailed revised procedures which will be implemented, to obtain adequate signature on the customer slips **(Attachment A)**. The procedures identified the authorized signatories to the slips; steps to be followed when no authorized signatories are present at site, or when they refuse to sign due to lack of technical background. Accordingly, Mission issued Staff Notice No. 99-02 dated March 17, 1999 to reinforce the above procedures **(Attachment B)**.

**Based on the issued new procedures to ensure satisfaction slips are signed and issuance of the Staff Notice, Mission believes that adequate corrective actions were taken, and requests closure of Recommendation No. 1 upon issuance of the report.**

**Recommendation No. 2: We recommend that USAID/Egypt institute tighter controls over the use of contractor overtime. Controls should apply to the current contract as well to the new contract by specification in the Request for Proposal.**

The report mentioned that the maintenance services contract provides that the workmen "will work overtime as necessary with the approval of the USAID Project Officer." However, the audit revealed that the Project Officer did not formally approve overtime, and that 32 percent of the audit sample included overtime payments.

Moreover, the report revealed that 12 percent of the work orders in the audit sample included unnecessary overtime. The report further stated that if controls to pre-approve overtime were in place, this could have yielded savings over the life of the contract.

* MGT/EXO established the following controls over the use of overtime; **a)** all emergency work will be done without regard to overtime considerations, **b)** United Engineering and Marketing (UEM) was requested to call MGT/EXO if overtime is required in excess of one hour, **c)** requests for work after the normal working hours by the requester will be referred to MGT/EXO for approval, **d)** MGT/EXO will document all requests for overtime.

* As stated in their response, PROC will ensure the existence of tight control over the use of overtime in the new contract(s) that will start on December 1, 1999, by awarding a minimum of two similar IQC contracts, which will **a)** significantly cause less or no overtime payments, and **b)** increase work efficiency and reduce cost due to competition between two firms, **(Attachment C)**.

**In view of the above, Mission requests resolution of Recommendation No. 2. Closure will be requested upon submission of the new contract (in Draft).**

**Recommendation No. 3: We recommend that USAID/Egypt, in preparing the Request for Proposal for the new repair and maintenance contract, limit employee bonuses paid under the contract to an amount based on a market survey of prevailing**

**practices among private sector repair and maintenance firm in Cairo.**

The report stated that under the Federal Acquisition Regulations, employee bonuses are allowable provided they are paid based on an established contractor plan; they are supported; and the amounts are reasonable. The report stated that the contractor has such a plan and bonus payments were supported and reasonable in amounts. The auditors believe, however, that certain savings might be possible under the upcoming contract depending on common practice for successful private firms in Egypt.

* In their response dated March 10, 1999 the Contracting Office stated that they will ensure that the new contract(s) will limit employee bonuses paid under the contract based on a market survey of prevailing practices among private sector activities.

**In view of the above, Mission requests resolution of Recommendation No. 3. Closure, will be requested upon submission of the market survey of bonus payments and the new contract (in Draft).**