



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

EXAMINATION OF ARAR GENERAL
CONTRACTING COMPANY'S COMPLIANCE WITH
CONTRACT TERMS AND CONDITIONS UNDER
SUB-CONTRACT NO. IQC-SWIFT-807-002
"TULKAREM AND SHOUFEH WATER
IMPROVEMENTS" WITH CAMP DRESSER AND
MCKEE INTERNATIONAL, INC., FUNDED BY U.S.
AGENCY FOR INTERNATIONAL DEVELOPMENT
FOR THE PERIOD FROM MAY 25, 2004, TO
AUGUST 25, 2004

AUDIT REPORT NO. 6-294-07-020-N
FEBRUARY 28, 2007

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.



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Office of Inspector General

Report No. 6-294-07-020-N

February 28, 2007

MEMORANDUM

TO: USAID/West Bank and Gaza Director, Howard Sumka

FROM: Regional Inspector General/Cairo, David H. Pritchard /s/

SUBJECT: Examination of Arar General Contracting Company Compliance With Contract Terms and Conditions Under Sub-contract Number IQC-SWIFT-807-002 "Tulkarem and Shoufeh Water Improvements" with Camp Dresser and McKee International, Inc., Funded by U.S. Agency for International Development for the Period From May 25, 2004, to August 25, 2004

Enclosed, please find one copy of the report that the independent audit firm of PricewaterhouseCoopers prepared on the subject engagement.

PricewaterhouseCoopers conducted the engagement in accordance with U.S. Government Auditing Standards except that the firm did not have an external quality control review by an unaffiliated organization because professional organizations in the West Bank and Gaza do not offer such a review program.

USAID awarded Contract Number LAG-1-07-812-98-00034-00 to Camp Dresser and McKee International, Inc., to implement a \$2,483,742 local water infrastructure construction initiative in the West Bank and Gaza in order to improve the quality of life for residents. Camp Dresser and McKee International, Inc., sub-awarded a \$309,193 contract to Arar General Contracting Company for the purpose of constructing two pre-fabricated steel reservoirs along with the piping, fittings, valves, concrete foundations, and chambers in Tulkarem Municipality and Shoufeh Village. The examination covered \$309,193 for the period from May 25, 2004, to August 25, 2004.

The examination included examining, on a test basis, evidence supporting compliance with the sub-contract terms and conditions and performing such other procedures as were considered necessary in the circumstances.

The auditors expressed a qualified opinion on the examination report. The auditors identified two material instances of non-compliance with the contract terms, laws and regulations, and Executive Order 13224. The auditors reported that Arar General Contracting Company was non-compliant with the insurance policies requirements stated in the sub-contract. In its management comments, Arar General Contracting Company stated that it had issued the applicable insurance policies in the West Bank and Gaza. In making a determination on this expired sub-contract, the USAID/West Bank and Gaza Contracting Officer acknowledged that liability insurance requirements would be enforced with any future contracts. Therefore, we are not making a recommendation on this finding. The auditors also noted that the provision pertaining to prohibition of terrorist financing required by the *Acquisition and Assistance Policy Directive 02-04, Implementation of Executive Order 13224 – Executive Order on Terrorist Financing*, was not included in the sub-contract by the prime contractor, Camp Dresser and McKee International, Inc.

Based on our review of the report, we are including the following recommendation in USAID's Consolidated Audit Tracking System to address the contractors' non-compliance with Executive Order 13224:

Recommendation No. 1: We recommend that the Contracting Officer, USAID/West Bank and Gaza, inform the contractor, Camp Dresser and McKee International, Inc., of its legal responsibility to ensure that its sub-recipients comply with the provision of Prohibiting Terrorist Financing required by Acquisition & Assistance Policy Directive (AAPD) 02-04, and to include this provision in all sub-awards.

Please advise the Office of Inspector General within 30 days of this memorandum of the action planned or taken to implement the recommendation. The Audit, Performance and Compliance Division (M/CFO/APC) will make a determination of final action.

Enclosures: a/s

INDEPENDENT ACCOUNTANT'S REPORT

Examination of Arar General Contracting Company Compliance with Contract Terms and Conditions under subcontract number IQC-SWIFT-807-002 "Tulkarem and Shoufeh Water Improvements" with Camp Dresser and McKee International, Inc. (CDM) Funded by U.S. Agency for International Development (USAID) for the period from May 25, 2004 to August 25, 2004

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Independent Accountant's Report
"Tulkarem and Shoufeh Water Improvements"
Financed by USAID, Managed by CDM, Inc. and Implemented by
Arar General Contracting Company
For the period from May 25, 2004 to August 25, 2004

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April 30, 2006

**Regional Inspector General
United States Agency for International Development (USAID)
Cairo, Egypt**

Dear Sir / Madam,

This report represents the results of the compliance examination of USAID Resources managed by CDM, Inc (hereinafter "CDM") and implemented by Arar General Contracting Company (hereinafter "Arar") under the prime contract number LAG-I-07-812-98-00034-00 for the period from May 25, 2004 to August 25, 2004.

This examination was mandated by Section 568(c) of the Consolidated Appropriations Resolution, 2003, and Section 566(c) of the Consolidated Appropriations Act, 2004, both of which require annual audits of all contractors and grantees, and significant subcontractors and subgrantees, funded under the Economic Support Fund for the West Bank and Gaza.

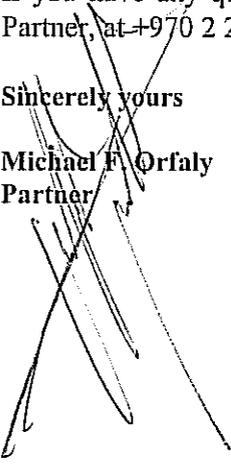
Our report disclosed two findings related to compliance with the subcontract terms and conditions. CDM's, management needs to follow up with Arar on these findings. Arar's management response to these findings is attached in full in Appendix A to this report.

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.

We appreciate the cooperation and courtesies provided by Arar's management and RIG Cairo staff. If you have any questions or need additional information, please contact Mr. Michael F. Orfaly, Partner, at +970 2 2400 230.

Sincerely yours

Michael F. Orfaly
Partner



**Independent Accountant's Report
"Tulkarem and Shoufeh Water Improvements"
Financed by USAID, Managed by CDM, Inc. and Implemented by
Arar General Contracting Company
For the period from May 25, 2004 to August 25, 2004**

BACKGROUND

Camp Dresser and McKee, Inc. (hereinafter "CDM") provided funding to Arar General Contracting Company (hereinafter "Arar") as a sub-contract under its prime contract with the United States for International Development (hereinafter "USAID") number LAG-I-07-812-98-00034-00 for the purpose of construction of two pre-fabricated steel reservoirs along with the required piping, fittings, valves and concrete foundations and chambers in Tulkarem Municipality and Shoufeh village. The total budgeted amount for this contract as stated in the contract dated May 18, 2004 is USD 309,193.

This report does not include any prior period examination recommendations because such examination was not previously performed on this contract.

EXAMINATION OBJECTIVES

The objective of this examination is to examine whether The Center's management complied, in all material respects, with the terms and conditions of its subcontract with CDM, and with related laws and regulations applicable to the Project.

EXAMINATION SCOPE

The principal criterion for this compliance examination was US Government Auditing Standards, Chapter 6, for General, Field Work, and Reporting Standards for Attestation Engagements. The examination scope includes various steps that have been performed on sample basis, obtaining adequate coverage based on the examination objectives and comfort required.

SUMMARY OF EXAMINATION RESULTS

This summary represents the results of our examination of Arar in respect to the project, and includes the nature of report issued and a summary of the key findings arising from the examination.

This report includes two reportable material weaknesses one of which is noncompliance with USAID Assistance and Acquisition Procurement Directives AAPD 02-04 (Implementation of E.O. 13224 Executive Order on Terrorist Financing), as further explained in the findings section of this report.

The results of our audit revealed no material instances of non-compliance with Restriction on Taxing Foreign Assistance (Section 579, as Amended by Section 506 of the FY 2004 Foreign Operation Act) which maintains that U.S. Foreign Assistance shall not be subject by a foreign country to value added taxes (VAT) or customs duties.

**Independent Accountant's Report
"Tulkarem and Shoufeh Water Improvements"
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SUMMARY OF THE RECIPIENT'S MANAGEMENT COMMENTS

The following schedule is a summary of Arar's management comments with respect to examination findings:

Findings

Summary of Arar's Comments

1) Insurance Requirements:

The required insurance types in the contract were not provided in full, because they were not available for sale in the West Bank and Gaza. Additionally, the insurance policies were not endorsed in the name of USAID as required in the subcontract.

Arar issued applicable insurance policies in West Bank and Gaza.

2) AAPD 02-04, Implementation of E.O. 13224 – Executive Order on Terrorist Financing:

In accordance with the "AAPD 02-04, Implementation of E.O. 13224 – Executive Order on Terrorist Financing" requires that a mandatory clause to be included in all contracts, subcontracts, grants and sub-grants to ensure that USAID funds are not used to support entities or individuals who are involved in terrorism. We did not find this clause within the subcontract terms as required.

Arar Company as a subcontractor was not asked to sign any executive order on terrorist financing.

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Independent Accountant's Report on Compliance

**Regional Inspector General
United States Agency for International Development (USAID)
Cairo, Egypt**

We have examined Arar General Contracting Company (hereinafter "Arar") compliance with the terms and conditions of its subcontract named "Tulkarem and Shoufeh Water Improvements" (hereinafter "Project") with Camp Dresser and McKee Inc. (hereinafter "CDM") for the period from May 25, 2004 to August 25, 2004. Arar's management is responsible for the compliance with the subcontract terms and conditions. Our responsibility is to express an opinion based on our examination.

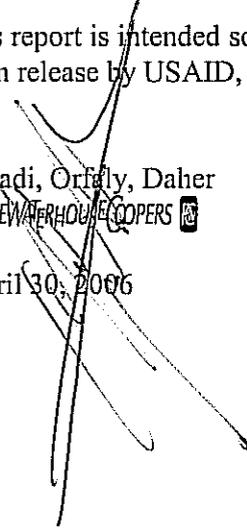
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and with U.S. Government Auditing Standards, and accordingly, included examining, on a test basis, evidence supporting compliance with the subcontract terms and conditions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following material instances of noncompliance:

- 1- Arar did not fulfill the insurance policies requirements stated in the subcontract.
- 2- Arar did not comply with AAPD 02-04, Implementation of Executive Order 13224 – Executive Order on Terrorist Financing which is required to comply with in accordance with the contract.

In our opinion, except for the material instances of noncompliance described in the preceding paragraph, Arar complied, in all material respects, with the aforementioned subcontract terms and conditions during the period from May 25, 2004 to August 25, 2004.

This report is intended solely for the information and use of Arar Company and the USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Sa'adi, Orfaly, Daher

PRICEWATERHOUSECOOPERS 

April 30, 2006

Independent Accountant's Report
"Tulkarem and Shoufeh Water Improvements"
Financed by USAID, Managed by CDM, Inc. and Implemented by
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FINDINGS AND RECOMMENDATIONS

1- Insurance Requirements

Background:

According to Exhibit A, point 12 in the terms and conditions in the contract, Arar shall maintain the following insurance types:

<u>Type</u>	<u>LIMITS</u>
1) Worker's compensation	Statutory, each accident \$50,000. Each policy limit open Each disease employee \$50,000
2) Automobile Liability Insurance	Statutory.
3) Commercial General Liability each occurrence	With a minimum combined single limit of \$50,000 per

In addition, all insurance policies shall be endorsed to CDM and the USAID as additionally insured. During our examination of the insurance policies provided by Arar Company, we noticed that only worker's compensation policy and Contractor's all risk insurance policies were provided, in addition to the normal company's cars insurance policy were available. Additionally, we noticed that the insurance policies were endorsed in the name of Arar Company and CDM, but not the USIAD as the contract requires.

Cause:

The required insurance types in the contract were not provided in full, because they are not available for sale in this the West Bank and Gaza. Additionally, the insurance policies were not endorsed in the name of USAID as required in the subcontract.

Recommendation:

We recommend CDM to modify the contract terms to include only those applicable policies, and to USAID as benefited from the insurance as required by the contract.

Management Response:

Arar issued applicable insurance policies in West Bank and Gaza.

Auditor's Response:

The above mentioned insurance policies are not provided by the local insurance companies. Arar should have communicated this with CDM in order to change the contract and to include only the types that are available in the West Bank.

Independent Accountant's Report
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2- AAPD 02-04, Implementation of E.O. 13224 – Executive Order on Terrorist Financing

Background:

AAPD 02-04, Implementation of E.O. 13224 – Executive Order on Terrorist Financing requires that a mandatory clause to be included in all contracts, subcontracts, grants and sub-grants to ensure that USAID funds are not used to support entities or individuals who are involved in terrorism. We did not find this clause within the subcontract terms as required.

Cause:

The contract between CDM and Arar General Contracting Company did not include this clause as required by APD 02-04.

Recommendation:

All contracts, subcontracts, grants and sub-grants contracts should include a mandatory clause to ensure that the USAID funds are not used to support entities or individuals who are involved in terrorism.

Management Response:

Arar Company as a subcontractor was not asked to sign any executive order on terrorist financing.

Auditor's Response:

We agree that CDM should have included this Clause, and that this is CDM personality and not the subcontractor. However, we selected to include this finding in order for the USAID to take action.

Independent Accountant's Report
"Tulkarem and Shoufeh Water Improvements"
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Appendix –A-: Recipient's Comment

ARAR FOR GENERAL CONTRACTING CO. General Manager Tawfiq Arar Qalqilia -Al-Awqaf Build.P.O.Box (10) Fax 09-29400444 Tel.09-2679710 Mobile 050-211771 - 050-387208	شركة عرار للمقاولات والتعهدات العامة بإدارة : توفيق عرار قالقية - صخرة الأوقاف - ص.ب (10) فاكس 09-29400444 - 09-2679710 تليفون تلفون سيارة 050/211771 - 050/387208
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3- Insurance Requirements :

Background :

According to point 12 in the terms and conditions Arar shall maintain the following Insurance types :

<u>Type</u>	<u>LIMITS</u>
1) Worker's compensation	Statutory, each accident \$50,000 Each policy limit open Each disease employee \$50,000
2) Automobile Liability Insurance	Statutory
3) Commercial General Liability per each occurrence	With a minimum combined single limit of \$50,000

In addition, all insurance policies shall be endorsed to CDM and the USAID as additionally insured . During our examination of the insurance policies provided by Arar Company, we noticed that only worker's compensation policy, Contractor's all risk types policy, and the normal company's cars insurance policy were available. After we inquired both Arar Co. and CDM, for other required types of policies, especially Commercial General Liability, we informed that those types are not applicable and are not available for sale in the West Bank and Gaza. Additionally, we noticed that the insurance policies were endorsed in the name of Arar Company and CDM, but not the USAID as the contract requires.

Cause :

The required insurance types in the agreement were not provided in full, because they are available for sale in this the West Bank and Gaza. Additionally, the insurance policies were not endorsed in the name of USIAD as required in the subcontract..

Recommendation:

We recommend CDM to modify the agreement terms to include only those applicable policies, and to USAID as benefited from the insurance as required by the contract.

Management Response :

Arar Company issued an applicable insurance policies in West Bank and Gaza.

4- AAPD 02-04, Implementation of E.O. 13224 – Executive Order on Terrorist Financing

Background :

In accordance with the "AAPD 02-04, Implementation of E.O 13224 – Executive Order on Terrorist Financing" requires that a mandatory clause to be include in all contracts, subcontracts, grants and sub grants to ensure that USAID funds are not used to support entities or individuals who are involved in terrorism. We did not find this clause within the subcontract terms as required.

Cause :

The agreement between CDM and Arar General Contracting Company did ^{not} include this clause as required by APD 02-04.

Recommendation:

All contracts, subcontracts, grants and sub grants agreements should include a mandatory clause to ensure that the USAID funds are not used entities or individuals who are involved in terrorism.

Management Response :

Arar Company as a subcontractor was not asked to sign any executive order on terrorist financing.
