



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

EXAMINATION OF ALKHIESI
COMPANY'S COMPLIANCE WITH THE
CONTRACT TERMS AND CONDITIONS
UNDER ITS SUB-CONTRACT NO.
G-EOC-812-006 WITH CAMP DRESSER
AND MCKEE INTERNATIONAL, INC.,
FUNDED BY U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT,
"GAZA CITY SEWERAGE PROJECT,"
FOR THE PERIOD FROM APRIL 10, 2004,
TO SEPTEMBER 5, 2004

AUDIT REPORT NO. 6-294-07-030-N
MARCH 19, 2007

CAIRO, EGYPT



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

Report No. 6-294-07-030-N

March 19, 2007

MEMORANDUM

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

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

SUBJECT: Examination of Alkhiesi Company's Compliance With the Contract Terms and Conditions Under Sub-Contract Number G-EOC-812-006 With Camp Dresser and McKee International, Inc., "Gaza City Sewerage Project," for the Period From April 10, 2004, to September 5, 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 \$2,483,742 to Camp Dresser and McKee International, Inc., under Contract Number LAG-I-07-812-98-00034-00 to construct local water infrastructure in the West Bank and Gaza in order to tangibly improve the quality of life for residents. Camp Dresser and McKee International, Inc., sub-awarded Sub-Contract Number G-EOC-812-006 with a total budgeted amount of \$389,407 to Alkhiesi Company for the installation of sewerage lines in Gaza City. The examination covered the period from April 10, 2004, to September 5, 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 eight material instances of non-compliance with the sub-contract terms, laws, and regulations, including non-compliance with Agency Acquisition Policy Directives implementing *Executive Order 13224 – Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism*. The auditors reported that Alkhiesi Company was non-compliant with the following provisions of the sub-contract:

- providing written and signed amendments to the sub-contract;
- completion of work before the end of the contract period;
- maintaining a record of employees' names and permanent addresses;
- providing the required insurance policies;
- issuing maintenance guarantee certificates;

- issuing an itemized final invoice after completion and acceptance of work; and
- submitting performance and completion reports.

In addition, the auditors noted that the provision pertaining to the prohibition of terrorist financing required by *Acquisition and Assistance Policy Directive (AAPD) 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.

The management of Alkhiesi Company agreed with the findings pertaining to terrorist financing and performance and completion reports. There was no management comment regarding required insurance policies. However, management disagreed with the findings for amendments, approval for extending the contract period, employees' files, maintenance guarantee certificates, and a detailed final invoice. Security conditions in the West Bank and Gaza were among the reasons for disagreement along with statements that certain documents had been provided and that employees were qualified according to Camp Dresser and McKee International, Inc., and USAID regulations. We are not making a recommendation regarding the bulleted sub-contract provisions above because we previously made a general recommendation in Audit Report No. 6-294-07-024-N dated March 11, 2007.

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 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 actions planned or taken to implement the recommendation. The Audit, Performance and Compliance Division (M/CFO/APC) will make the determination of final action.

Enclosures: a/s

INDEPENDENT ACCOUNTANT'S REPORT

Examination of Alkheisi Company Compliance with the Contract Terms and Conditions under subcontract number G- EOC-812-006 with Camp Dresser & McKee International, Inc. (CDM) Funded by U.S. Agency for International Development (USAID) and named "Gaza City Sewerage Project" for the period from April 10, 2004 to September 5 2004

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April 20, 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 Camp Dresser and McKee, Inc (hereinafter "CDM") and implemented by AlKhiesi Company (hereinafter "The company") under subcontract/ tender number G- EOC-812-006 "Gaza City Sewerage Project" for the period from April 10, 2004 to September 5, 2004 .

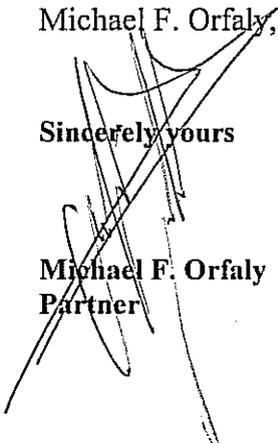
This examination was mandated by Section 568(c) of the Consolidated Appropriations Resolution, 2003, and Section 566(c) of the Consolidated Appropriations Act, 2004, both of which require annual audits of all contractors and grantees, and significant subcontractors and subgrantees, funded under the Economic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

Our report disclosed eight findings related to compliance with the subcontract terms and conditions. CDM's management should follow up with The Company on these findings. The Company'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 AlKheisi Company'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

BACKGROUND

CDM subcontracted The Company under its prime contract with the USAID number HRN-I-07-98-0034-00. The purpose of the subcontract was to install sewerage lines in Gaza City. CDM has delivered the necessary materials to the stores of the Palestinian Water Authority ("PWA") in Gaza City and then The Company has transported them from the PWA stores and installed them. The work was performed according to the drawings, Bill of Quantities and as requested by CDM at the proposed sites. The total budgeted amount for this subcontract as stated in the subcontract dated February, 2004 is USD 389,407.

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

EXAMINATION OBJECTIVE

The objective of this examination is to examine whether The Company'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.

SUMMARY OF EXAMINATION RESULTS

This summary represents the results of our examination of The Company 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 eight 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.

SUMMARY OF THE RECIPIENT'S MANAGEMENT COMMENTS

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

Findings

Summary of Company's Comments

1- No Written and Signed Amendments between CDM and Al-Kheisi Company (Refer to the findings section for more details).

1) CDM was issued time wise amendment between CDM and TECC (Referee to CDM or TECC files)
2) CDM was not able to issued time wise amendment between CDM and the sub-contractor " Al Kheise Co." because of the rescheduling the job schedule day by day due to shortage in UPVC pipes which was need especial coordination and approval from the IDF (Israeli Defense Forces) to pass from Israel to Gaza through Karni entrance according to the political and security situation.

2- Liquidated Damages (Refer to the finding section for more details).

The approved time wise analyses showed that the job delay was justified and out of sub –contractor obligations ,which means the contract's plenty item was not valid.

3- Employees' Files (Refer to the findings section for more details).

The company employs a qualified staff as per CDM /USAID regulations.

4- Insurance Requirements (Refer to the findings section for more details).

No comments.

5- Maintenance Guarantee (Refer to the findings section for more details).

The maintenance grantee certificates endorsed to the name of PWA as per the PWA and Gaza municipality request.

6- AAPD 02-04, Implementation of E.O. 13224 – Executive Order on Terrorist Financing (Refer to the findings section for more details).

We agreed with the above recommendation

7- Final Invoice (Refer to the findings section for more details).

The final invoice was included detailed itemized listing and wasn't paid until the job completion and approved by all the concerned parties.

8- Performance and Completion Reports (Refer to the findings section for more details).

We agreed with the above recommendation

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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 Al-Kheisi Company (hereinafter "The Company") compliance with the terms and conditions of its subcontract named "Gaza City Sewerage Project" (hereinafter "the Project") with Camp Dresser and McKee Inc. (hereinafter "CDM") for the period from April 10, 2004 to September 5, 2004. The Company'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. The subcontract requires that all changes to be in writing. However, the contract was modified but not in writing,
2. The company finished the work 54 days after the deadline without paying liquidated damages as required by the contract,
3. The company does not keep files for its employees,
4. The required insurance types in the subcontract were not provided in full, because they were not available in the West Bank and Gaza,
5. Maintenance Guarantee was issued only in the name of the CDM, and not in the name of the Palestinian Water Authority (PWA) as required by the subcontract,
6. The Company did not comply with AAPD 02-04, Implementation of Executive Order 13224 , which 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,
7. The final invoice did not include itemized listing of the gross amounts, retentions and the final payment certification and release and had been issued without receiving the final completion letter from the CDM, and
8. The Company did not comply with AIDAR clause 752.7026- "REPORTS" as required in the contract, in accordance to this clause, the Company is required to issue both performance and completion reports. The Company did not prepare or submit these reports.

In our opinion, except for the material instances of noncompliance described in the preceding paragraph, The Company complied in all material respects with the aforementioned subcontract terms and conditions during the period from April 10, 2004 to September 5, 2004.

This report is intended solely for the information and use of AlKheisi 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, Orfiy, Daher

PRICEWATERHOUSECOOPERS 

Ramallah, April 20, 2006

FINDINGS AND RECOMMENDATIONS

1- No Written and Signed Amendments between CDM and Al-Kheisi Company or Technical Engineering Consulting Company

Background:

In reference to exhibit A part II in the signed subcontract which states that, "All work shall be completed within (90) calendar days after CDM issues the written notice to proceed". After our review we noticed that the date of the notice to proceed was April 10, 2004 and the completion date was September 5 2004, so the period was 148 days. After our inquiry we were informed that there was no amendment signed between Al-Kheisi Company or the Technical and Engineering Consulting Company and CDM.

Criteria:

Amendments should be in writing and should be signed by both parties.

Cause:

No written and signed amendments between the CDM and the Technical and Engineering Company or Al-Kheisi Company were found.

Effect:

The Technical and Engineering Company and AlKheisi in addition to the CDM are not in compliance with the terms of their subcontract, regarding this point.

Recommendation:

To avoid disputes between the contracting parties, CDM and The Technical Engineering and Consulting Company in addition to Al-Kheisi Company should have written contract amendments signed by them.

Management Response:

- 1) CDM was issued time wise amendment between CDM and TECC (Referee to CDM or TECC files)
- 2) CDM was not able to issued time wise amendment between CDM and the sub-contractor " Al Kheise Co." because of the rescheduling the job schedule day by day due to shortage in UPVC pipes which was need especial coordination and approval from the IDF (Israeli Defense Forces) to pass from Israel to Gaza through Karni entrance according to the political and security situation.

Auditor's Response:

We disagree with the sub-contractor, in case the political and security situation caused the delays in performing the project, still the subcontractor and CDM should have extended the subcontract period in writing.

2- Liquidated Damages

Background:

In accordance with Part II in the subcontract point 3: "In the event that the company fails to perform the work by and at the time or times herein set forth, the company shall pay the CDM as liquidated damages and not as penalty, an amount of \$1,300 for each day delay incurred". After our review, we noticed as mentioned in the first point in this letter that the work has been delayed 54 days after the deadline of the project without deducting any amount from the company or providing evidence of the CDM approval of extending the time without charging the company any amounts.

Criteria:

The company shall pay \$1,300 for each delay in the deadline or obtaining the CDM approval on extending the time.

Cause:

The work has been delayed 54 day after the deadline.

Recommendation:

The approved time wise analyses showed that the job delay was justified and out of sub –contractor obligations, which means the contract's plenty item was not valid.

Management Response:

The approved time wise analyses showed that the job delay was justified and out of sub –contractor obligations, which means the contract's plenty item was not valid.

Auditor's Response:

The delay after the deadline, even if justified, was not approved in writing by CDM.

3- Employees' Files

Background:

In reference to Exhibit B point d in the subcontract, the company shall employ for the work personnel who possess the necessary qualifications to perform the work and provide them with appropriate protective equipment required by the Work. After our review for the employees' qualifications and experiences we noticed that the company dose not keep files for their employees which include their certificates, CVs and work experience certificates and signed contract with them.

Effect:

The company dose not keep files for their employees which include the mentioned items.

Recommendation:

We recommend the company to open a file for each employee and keep the employees' documents in it.

Management Response:

The company employs a qualified staff as per CDM /USAID regulations.

Auditor's Response:

We could not review the documents that can support the auditee's response because the company does not keep employees' files.

Independent Accountant's Report

**"Gaza City Sewerage" Financed by USAID, Managed by CDM, Inc. and Implemented by AIKhiesi Company
For the period from April 10, 2004 to September 5, 2004.**

4- Insurance Requirements

Background:

According to Exhibit E in the subcontract signed with the CDM, we noticed that:

1) The following types of insurance types are required under this subcontract:

Required		Type of Insurance	Limits	
Yes	No			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Builders Risk	Contract Price	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Workers' Compensation	Statutory	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Employer's Liability	Each Accident	\$50,000
			Disease – Policy Limit	OPEN
			Disease – Each Employee	\$50,000
<input type="checkbox"/>	<input checked="" type="checkbox"/>	U.S. Longshoreman and Harbors Act Coverage	Statutory	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Commercial General Liability	Bodily Injury: \$50,000 per Occurrence OPEN- Aggregate Property Damage: Replacement Cost per Occurrence Replacement Cost - Aggregate Personal Injury: OPEN- Aggregate	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Automobile Liability	Statutory	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Automobile Liability with MCS -90 and CA 9940 Endorsement	Combined Single Limit	\$5,000,000
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Professional Liability	\$1,000,000 per Claim	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Subcontractor's Pollution Liability	\$2,000,000 per Occurrence/Aggregate	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Excess/Umbrella Liability (Applicable to Employer's Commercial and Automobile)	\$3,000,000	

2) All insurance policies except for workers compensations and professional liability shall be endorsed to the name of CDM and USAID as additional insured, and

3) All insurance policies required by this contract shall be obtained through companies approved by CDM and USAID and shall be available to them for inspection upon request.

After our examination of the insurance policies provided by the company, we noticed that"

Independent Accountant's Report

**"Gaza City Sewerage" Financed by USAID, Managed by CDM, Inc. and Implemented by AlKhiesi Company
For the period from April 10, 2004 to September 5, 2004.**

- 1) Only worker's compensation and Contractor's (all risk types) were provided. After inquiry, we noticed that the employer's liability type was not issued due to the fact that this type is not normally issued by the local companies the West Bank and Gaza and after inquiry some insurance companies for the commercial general liability type we informed that it considered a part from the "contractors all risks type of insurance".
- 2) The insurance policies were not endorsed to the name of the USAID as additional insured.
- 3) The CDM and the USAID approval of the insurance policy were not available.

Cause:

The required insurance types in the subcontract were not provided in full, and the CDM and the USAID approval of the insurance policy was not available.

Recommendation:

We recommend CDM to change the types of the required insurance policies, or to request the subcontractors to obtain such types of insurance. In case these policies can not be provided, they should not be included in the subcontracts subcontract.

Management Response:

No comments

5- Maintenance Guarantee

Background:

In reference to Exhibit B point 3.3: "The company shall provide the maintenance guarantee certificates endorsed to the name of PWA and/or the Municipality as a first beneficiary and then to CDM as second beneficiary. During the course of our examination, we noticed that the maintenance guarantee was issued in the names of CDM only and not in the name of the PWA and the municipality as required by the subcontract.

Criteria:

Maintenance guarantee shall be issued in the name of PWA and/or the municipality as first beneficiary and in the name CDM as second beneficiary.

Cause:

Maintenance guarantee was issued in the name of CDM only.

Recommendation:

We recommend the company to be in compliance with the subcontract terms and conditions.

Management Response:

The maintenance grantee certificates endorsed to the name of PWA as per the PWA and Gaza municipality request.

Auditor's Response:

The terms of the subcontract are clear and request the company to provide the maintenance guarantee certificates endorsed to the name of PWA and/or the Municipality as a first beneficiary and then to CDM as second beneficiary. Any changes to the terms of the subcontract should have been in writing.

6- 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 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. After our review of the subcontract terms and conditions we did not find such a clause.

Criteria:

The subcontract terms and conditions should include a mandatory clause which ensures that the USAID funds are not used to support entities or individuals who are involved in terrorism.

Cause:

The subcontract between CDM and the Technical Engineering and Consulting Company did include this clause.

Recommendation:

All contracts, subcontracts, grants and sub grants subcontracts 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:

We agreed with the above recommendation

7- Final Invoice

Background:

The final invoice shall be submitted for final payment after completion and acceptance of Work by PWA or the Gaza Municipality and CDM and compliance by the company with all terms of this Subcontract. This invoice shall contain a complete itemized listing of any gross amounts, retention amounts, the total amount of sums retained and due, etc. It shall also contain, or be supported by a written acceptance of the Work signed by the CDM and the final payment certification and release which states that "El-Kheisi Brothers company has fully performed all work reflected in this completion invoice and submitted all reports due under this subcontract. CDM payment of this invoice in full will constitute full payment of all amounts due El-Kheisi Brothers Company under this subcontract. El-Kheisi and Brothers Company releases CDM and the USAID and their officers, agents and employees from all liabilities, obligations and claims arising out of or under this subcontract".

During our audit we noticed the following:

- 1) The invoice did not include a complete itemized listing of any gross amounts, retention amounts, the total amounts of sums retained and due,
- 2) There was no written and signed acceptance of the work from CDM by sending a letter of completion to the company, and
- 3) The final invoice did not contain the final payment certification and release.

Criteria:

The final invoice shall be issued after the above mentioned points have been met

Cause:

The final invoice did not include itemized listing of the gross amounts, retentions and the final payment certification and release and had been issued without receiving the final completion letter from the CDM.

Recommendation:

The final invoice shall include detailed listing of the gross amounts, retentions and the final payment certification and release and to be issued after receiving a letter of completion and acceptance of work by the CDM.

Management Response:

The final invoice was included detailed itemized listing and wasn't paid until the job completion and approved by all the concerned parties.

Auditor's Response:

We disagree with the auditee, the invoice did not include a complete itemized listing of gross amounts, retention amounts, or the total amounts of sums retained and due. In addition, there was no written and signed acceptance of the work from CDM by sending a letter of completion to The company, and the final invoice did not contain the final payment certification and release.

8- Performance and Completion Reports

Background:

In accordance with the AIDAR clause 752.7026- "REPORTS", the company is required to issue the following two types of the reports:

- 1) Performance reports: which shall be submitted within 10 days of the end of the period being covered and summarized the progress of major activities in process.
- 2) Completion report: this report summarizes the accomplishments of the assignments, methods of work used, and recommendations regarding unfinished works and project continuation. This report shall be submitted within 30 days after completion of the work.

Criteria:

The company shall submit performance and completion reports as required by the subcontract.

Cause:

The company did not prepare and submit these reports.

Recommendation:

We recommend the company to be in compliance with the subcontract terms and conditions.

Management Response:

We agreed with the above recommendation

Appendix -A-: Recipient's Comments

"???? ??????" <alkhasi_co@hotmail.com>

02/08/2006 06:29

To Maisara H Salameh/PS/ABAS/PwC@EMEA-ME

cc

Subject מכתב תגובה

1- No Written and Signed Amendments between CDM and Al-Kheisi Company or Technical Engineering Consulting Company

- A) CDM was issued time wise amendment between CDM and TECC (Referee to CDM or TECC files)
- B) CDM was not able to issued time wise amendment between CDM and the sub-contractor " Al Kheise Co." because of the rescheduling the job schedule day by day due to shortage in UPVC pipes which was need especial coordination and approval from the IDF (Israeli Defense Forces) to pass from Israel to Gaza through Karni entrance according to the political and security situation.

2- Liquidated Damages

The approved time wise analyses showed that the job delay was justified and out of sub –contractor obligations ,which means the contract's plenty item was not valid.

3- Employees' Files and Record

The company employs a qualified staff as per CDM /USAID regulations.

4- Insurance Requirements

No comments

5- Maintenance Guarantee

The maintenance grantee certificates endorsed to the name of PWA as per the PWA and Gaza municipality request.

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

We agreed with the above recommendation

7- Final Invoice

The final invoice was included detailed itemized listing and wasn't paid until the job completion and approved by all the concerned parties.

8- Performance and Completion Reports

We agreed with the above recommendation