



**USAID**  
FROM THE AMERICAN PEOPLE

## OFFICE OF INSPECTOR GENERAL

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AGREED-UPON PROCEDURES ON SELECTED  
CONSTRUCTION CONTRACTORS TO EVALUATE  
USAID RESOURCES PROVIDED UNDER WEST BANK  
AND GAZA'S EMERGENCY ROADS REHABILITATION  
PROJECT PHASE I

AUDIT REPORT NO. 6-294-06-017-N  
SEPTEMBER 13, 2006

CAIRO, EGYPT

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

**Report No. 6-294-06-017-N**  
September 13, 2006

**MEMORANDUM**

**TO:** USAID/West Bank and Gaza Acting Mission Director, David Harden

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

**SUBJECT:** Agreed-Upon Procedures on Selected Construction Contractors to Evaluate USAID Resources Provided Under West Bank and Gaza's Emergency Roads Rehabilitation Project Phase I

The Regional Inspector General/Cairo is transmitting one copy of the report that the independent firm, El Wafa & Company prepared on the subject engagement.

El Wafa & Company conducted the engagement in accordance with Generally Accepted 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/West Bank and Gaza designed Phase I of the "Emergency Roads Rehabilitation Project," to improve the roads infrastructure in six Governorates in West Bank and Gaza. The Mission awarded 11 fixed price indefinite quantity contracts to local construction contractors. The contracts were implemented through 27 firm fixed priced task orders totaling \$13.9 million. The Mission included within each task order the fixed unit construction rates for the requested road rehabilitation activities identified within the negotiated bills of quantities. The audit firm of El Wafa & Company conducted agreed upon procedures on selected 14 task orders totaling \$9,012,089 awarded to 9 local construction contractors in Phase I of the project.

The objective of this engagement was to report on the basis for price and quantity variances between the amounts that USAID negotiated and amounts the contractors actually incurred. This information was requested to make a determination if the negotiated fixed construction rates were reasonable compared to what the selected contractors actually paid. Furthermore, a second objective was for El Wafa & Company to determine if each complied with specific contract terms and applicable laws and regulations.

Because the audit firm was not engaged to conduct an audit, the auditors did not express an opinion. The auditors identified material instances of non-compliance with the contracts terms, laws and regulations, and Executive Order 13224. The auditors reported that certain contractors were non-compliant with the Federal Acquisition Regulations that require contractors to select subcontractors on a competitive basis. In addition, the auditors noted that provision pertaining to prohibition of terrorist financing required by the Acquisition and Assistance Policy Directive (AAPD) 02-04 was not included in the subcontracts. Finally, the auditors noted that they were unable to determine price and quantity variances for seven contractors because those contractors lacked adequate accounting systems (Schedule A on page 8 of the report).

Based on our review of the report, we are including two recommendations in USAID's Audit Recommendations Tracking System to address the contractors' deficient accounting systems and non-compliance with Executive Order 13224:

*Recommendation No. 1: We recommend that the Contracting Officer, USAID/West Bank and Gaza, request the contractors covered by this audit to establish adequate accounting systems that facilitate proper accounting for the receipt and use of USAID funds, as a condition for negotiating any future awards.*

*Recommendation No. 2: We recommend that the Contracting Officer, USAID/West Bank and Gaza, inform the contractors covered by this audit of their legal responsibility to ensure that their subcontractors comply with the provision of prohibiting Terrorist Financing required by Acquisition & Assistance Policy Directive (AAPD) 02-04, and to include this provision in all subcontracts.*

Please advise the Office of Inspector General within 30 days of this memorandum of the action planned or taken to implement the recommendation.

Enclosures: a/s

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza's Emergency Roads  
Rehabilitation Project Phase I**

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
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June 1, 2005

U.S. Agency for International Development  
Office of Regional Inspector General  
Plot 1/A, off El Laselky Street  
New Maadi  
USAID  
Cairo, Egypt 11435

*Dear Sirs,*

This report presents the findings of the Agreed-Upon Procedures on Selected Construction Contractors to Evaluate USAID Resources Provided under West Bank and Gaza's Emergency Roads Rehabilitation Project Phase I.

### Background

#### *Description of USAID Project*

The Palestinian Authority (PA), through the Ministry of Local Government and Ministry of Public Works and Housing, continues to strive to improve the road infrastructure in the West Bank and Gaza in order to facilitate the movement of goods and services throughout those areas and help improve the economic well being of the Palestinian people as a whole. Damages to road infrastructure, road closures and the general inability of the Municipalities and Ministry of Public Works to maintain road infrastructure during the Intifada period have caused suffering for the people of the West Bank and Gaza, negatively affecting economic growth and negatively impacting the environment and health of the Palestinians. The USAID/West Bank and Gaza Mission has been involved in providing interventions to improve the service infrastructure (water, sewer, roads, etc.) since 1996 in the West Bank and Gaza. USAID's Water Resources Office manages the Emergency Roads Rehabilitation Project (ERRP), in cooperation with the USAID Community Services Program. The Emergency Roads Rehabilitation Project is a significant intervention designed to directly improve the road infrastructure in the areas of most need and promote the movement of goods and services to enhance commerce and benefit the maximum number of Palestinian people. USAID also formulated the ERRP to provide a temporary increase in local employment and provide a stimulus to local economies in areas of road rehabilitation and reconstruction efforts.

Phase one of the ERRP consisted of the rehabilitation of roads and streets, along with accessory infrastructure (sidewalks, medians, curbs, lighting, traffic signals, directional signs, water lines, etc.) in the Governorates of Bethlehem, Hebron, Jenin, Nablus, Ramallah and Northern Gaza .

USAID identified the roads and streets selected for rehabilitation within these Governorates, based on recommended priorities from the Ministry of Planning in collaboration with Municipalities, the Ministry of Public Works and Housing, and the Ministry of Local Government. It was in USAID's interest to provide wide-ranging benefit to the Palestinian people throughout the West Bank and Northern Gaza, by rehabilitating important roads and streets in all six Governorates. Components were built into the scope of the ERRP to maximize local employment by including such labor-intensive activities as construction of stone retaining walls and construction of sidewalks and medians using interlocking tiles.

USAID solicited locally-based Palestinian road construction contractors who held Grade A classifications in the Palestinian Contractors Association. USAID requested technical and cost proposals from these contractors and evaluated and ranked each proposal. In its evaluation, USAID made the determination that cost would have a 30 percent factor of importance relative to 70 percent factor for technical merit. USAID made the awards based on the offers that constituted the best value to the Government. USAID awarded eleven fixed price indefinite quantity contracts. The contracted work was identified and contracted through task orders issued as firm fixed priced orders under the basic contract. USAID designed the task orders to provide technical direction, a ceiling price for each task, and obligation of funds. USAID included within each task order the fixed unit construction rates for the requested road rehabilitation activities identified within the negotiated bills of quantities.

USAID contracted CH2MHill to provide overall Construction Management services in the ERRP and CH2MHill subcontracted with local Palestinian engineering firms to provide on-site construction management.

#### *Entities Subject to the Engagement*

Our work covered the following nine contractors in the West Bank and Gaza:

No.	Name of contractor	Location	Contract and Task Order (TO) Number
1	Saqqa And Khoudary Joint Venture (SKJV)	Gaza*	294-C-00-03-00208 (TO 2), 294-C-00-03-00209 (TO 1&2)
2	Saqqa And Khoudary Ltd. (SKLTD)	Gaza	294-C-00-03-00213 (TO 2)
3	Afaq General Contracting Group (AFAQ)	West Bank	294-C-00-03-00216 (TO 1)
4	Arab Contractors - Palestine (ARAB CONTRACTORS)	Gaza	294-C-00-03-00215 (TO 1), 294-C-00-03-00217 (TO 2&3)
5	Ocean Contracting and Investment Co. Ltd. (OCEAN)	West Bank	294-C-00-03-00214 (TO 2)

No.	Name of contractor	Location	Contract and Task Order (TO) Number
6	Abu Wardah Co. Ltd. (ABU WARDAH)	Gaza	294-C-00-03-00212 (TO 1)
7	Abu Shusheh General Contractor Co. (ABU SHUSHEH)	West Bank	294-C-00-03-00210 (TO 1&2)
8	Tubeileh Arar Joint Venture (TAJV)	West Bank	294-C-00-03-00218 (TO 1)
9	Al-Tarifi Group Co. (TARIFI)	West Bank	294-C-00-03-00211 (TO 2)

\* Although identified in the statement of work to be in West Bank, the current location is in Gaza.

#### *Objectives of the Agreed-Upon Procedures*

The objective of this engagement is to apply agreed-upon procedures on selected construction contractors to evaluate the basis for contractor's proposed construction rates and compare the negotiated fixed unit construction rates and quantities of material included in the bill of quantities with actual contractor costs. Furthermore, a second objective is to apply agreed-upon procedures on selected contractors to determine if each contractor has complied with specific contract terms and applicable laws and regulations.

#### *Scope of the Agreed-Upon Procedures*

El Wafa & Co. conducted the engagement in accordance with Generally Accepted 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. We implemented the following steps as the basis for our work:

1. We reviewed the following documents that we considered necessary to perform the agreed-upon procedures:
  - The contracts between USAID and the contractors.
  - The subcontracts between the contractor and subcontractors.
  - Federal Acquisition Regulation (FAR), Part 31-“Contract Cost Principles and Procedures.”
  - USAID Acquisition Regulation (AIDAR), which supplements the FAR.
  - Guidance contained in AICPA SAS No. 74 (AU801) entitled *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients*.
2. Reviewed copies of the contractor's proposal to USAID.
3. Applied the steps enumerated in the Agreed-Upon Procedures Report (Report Narrative).

4. We tested the contractors' compliance with applicable laws and regulations. Our work included tests to determine if the contractors complied with Executive Order 13224 - *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism* and Section 579 of the Foreign Operations Act of 2003, *Restriction on Taxing Foreign Assistance*.

El Wafa & Co.



Musa Abu Dieh  
Ramallah - Palestine  
June 1, 2005

**Agreed-Upon Procedures Report on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza's Emergency Roads  
Rehabilitation Project Phase I**

U.S. Agency for International Development  
Office of Regional Inspector General  
Plot 1/A, off El Laselky Street  
New Maadi  
USAID  
Cairo, Egypt 11435

We have performed the procedures agreed with you, enumerated below, with respect to Selected Construction Contractors to Evaluate USAID Resources Provided under West Bank and Gaza's Emergency Roads Rehabilitation Project Phase I. Our engagement was undertaken in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The procedures were performed solely to assist you in (1) evaluating the basis for contractor's proposed construction rates and comparing the negotiated fixed unit construction rates and quantities of material included in the bill of quantities with actual contractor costs (2) determining if each contractor has complied with specific contract terms and applicable laws and regulations. *The engagement was limited to the following Agreed-Upon Procedures:*

1. Requested the contractor to provide accounting reports documenting the construction material procured to meet the task order requirements under bill of quantities numbers 2, 3, 4, 5, and 6.
2. Reviewed and documented the contractor's basis for the proposed unit price included in its cost proposal and submitted in response to USAID's Request for Proposal No. 294-2003-016 issued on June 12, 2003.
3. Where possible, verified and documented the actual unit price paid for the construction requirements stipulated in the task order.
4. Where possible, verified and documented the actual quantities purchased and used to meet the construction requirements required within the selected task order.
5. Reviewed and documented whether prices excluded value added tax.
6. Reviewed and document whether funds were used for the intended purpose.

We did not perform an audit and accordingly we do not express an audit opinion. This report pertains only to the performance of agreed-upon procedures to evaluate the basis for the fixed unit construction rates proposed by selected contractors and verify and report on actual cost and quantities expended. We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the subject matter of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Following are the major findings resulting from the performance of the agreed upon procedures:

1. To achieve the first objective, we reviewed 14 task orders awarded to 9 construction contractors to evaluate the basis for contractor's proposed construction rates and compare the negotiated fixed unit construction rates and quantities of material included in the bill of quantities with actual contractor costs. Our review indicated the following (For more details refer to the attached schedules and the related notes) :-
  - a. The common basis of pricing among the 9 contractors is the past experience in the field of contracting. Certain contractors provided us with the breakdown of their prices while others discussed pricing in general. For more details refer to the explanatory notes attached to the schedules.
  - b. Only SKLTD accounted for each task order separately while TAJV was awarded one task only. Otherwise, we were unable to obtain the needed information for each task order subject to our review from the remaining contractors who were awarded more than one task order.
  - c. Three contractors owned stone crushers and asphalt factories which they used to internally supply USAID project with needed materials.. Actual costs as such could not be verified in the absence of reliable costing systems.
  - d. Five contractors (TARIFI, OCEAN, AFAQ, SKJV and ABU WARDAH) accounted for USAID awards at project level rather than task order level, which resulted in extreme difficulty in identifying actual costs and quantities attributed to individual task orders.
  - e. ABU SHUSHEH neither accounted for USAID awards at a project nor at task order levels. ABU SHUSHEH's accounting system is designed for the entity as a whole.

- f. ARAB CONTRACTORS, and as further detailed in explanatory notes, has provided us with financial information compiled manually by an accountant hired by their implementation agent in the West Bank which we could not reasonably verify.

Based on the above, we were able to compute total price variance for two of the nine contractors. For the remaining seven, we were able to compute certain price and quantity variances as further illustrated in the schedules.

2. In response to the second objective, we noted the following:

- a. With respect to compliance with contract terms and applicable laws and regulations, we concluded that contractors have generally complied with such regulations considering the special nature of the Emergency Roads Rehabilitation Project (ERRP). Certain contractors were engaged in subcontracting and were non compliant in certain aspects. For more details refer to the attached schedules and the related notes.
- b. With respect to compliance with AAPD 02-04, Implementation of E.O. 13224 - Executive Order on Terrorist Financing, we concluded that the required standard wording was included in the contracts between USAID and the contractors while such wording was not included in the contracts between the contractors and the Subcontractors.
- c. With respect to compliance with AAPD 02-19, Implementation of E.O. 13224 - Certification Regarding Terrorist Financing, we requested a confirmation from USAID mission in Tel Aviv as to whether contractors have provided the required certification. The mission replied that "*Anti-terrorism Certification is not required for these contractors due to the fact that these awards were all contracts and task orders. The Anti-terrorism Certification is required from all U.S and non- U.S organizations who receive grants or cooperative agreements*".

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and use, and is not to be distributed to any other parties. This report relates only to the task orders under certain contracts and does not extend to the financial statements of the contractors taken as a whole.

El Wafa & Co.



Musa Abu Dieh  
Ramallah - Palestine  
June 1, 2005

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza's Emergency Roads  
Rehabilitation Project Phase I**

**Schedules**

(Currency: U.S. Dollar)

**Schedule A**

**Summary Results of Application of Agreed-Upon Procedures**

Currency: U.S. Dollar

<b>Contractor Name</b>	<b>Variance Due to Price</b>	<b>Variance Due to Quantity</b>	<b>Total Price Variance</b>	<b>Reference</b>
Saqqa And Khoudary Joint Venture	321,360	204,743	526,103	Schedule B1
Saqqa And Khoudary Ltd.	ND	141,560	ND	Schedule B2
Afaq General Contracting Group	15,914	(4,966)	10,948	Schedule B3
Arab Contractors - Palestine	ND	(39,196)	ND	Schedule B4
Ocean Contracting and Investment Co. Ltd.	ND	70,753	ND	Schedule B5
Abu Wardah Co. Ltd.	ND	269,817	ND	Schedule B6
Abu Shusheh General Contractor Co.	ND	34,059	ND	Schedule B7
Tubeileh Arar Joint Venture	ND	ND	ND	Schedule B8
Al-Tarifi Group Co.	ND	(2,704)	ND	Schedule B9

**ND:** Not Determinable, refer to explanatory notes.

## Schedule B1

### Summary of Application of Agreed-Upon Procedures

#### Saqqa and Khoudary Joint Venture (SKJV)

Currency: U.S. Dollar

*B1.1 Task order number 2 of contract 294-C-00-03-00208*

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity*</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
4.03(a)	Bituminous wearing course- 40mm thick	7.14	4.9	46,558	0	20,785	148,405	194,963	B1.1.1
4.03(b)	Bituminous wearing course- 50mm thick	8.29	6	71,072	52,859	31,036	(180,913)	(109,841)	B1.1.1
4.04(a)	Bitumouns binder course - 50 mm thick	8.29	6	6,059	0	2,646	21,935	27,994	B1.1.1
4.08(b)	Asphalt milling @ 30 mm thick	2.19	1.1	11,211	0	10,285	22,524	33,735	B1.1.1
4.08(c)	Asphalt milling @ 40 mm thick	2.69	0.68	20,801	0	10,349	27,839	48,640	B1.1.1
4.08(d)	Asphalt milling @ 50 mm thick	3.44	1.3	13,867	0	6,480	22,291	36,158	B1.1.1
5.13(a)	Precast concrete curbstone	27.5	12	151,792	8,003	9,793	49,225	201,017	B1.1.2
				<b>321,360</b>			<b>111,306</b>	<b>432,666</b>	

\* Information based on CH2M Hill reports, which generally agree to company records. More details are included in the attached explanatory notes.

Schedule B1 (continued....)

B1.2 Task order number 1&2 of contract 294-C-00-03-00209

<i>Task order</i>	<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
1	2.01(a)	Excavation in all materials.	5.5	2.25	48,519	5,000	14,929	54,610	103,129	B1.2.1
1	2.02(a)	Subgrade replacement (200 mm)	7.8	7.01	4,347	0	5,502	42,916	47,263	B1.2.1
1	2.02(c)	Topping (selected materials).	10.5	7.88	11,180	6,000	4,267	(18,197)	(7,017)	B1.2.1
1	3.01(a)	Sub base 150 mm thick.	3.6	2.25	9,356	29,000	6,930	(79,452)	(70,096)	B1.2.1
1	3.01(b)	Sub base 200 mm thick.	4.3	2.70	11,808	0	7,380	31,734	43,542	B1.2.1
1	3.02(c)	Base course 200 mm thick.	8.6	3.5	86,695	15,000	16,999	17,191	103,886	B1.2.1
1	4.03(b)	Bituminous wearing course 50 mm thick.	8.29	ND	ND	10,000	10,192	1,592	ND	B1.2.2
1	4.04(b)	Bituminous binder course 60 mm thick.	9.69	ND	ND	11,000	12,549	15,010	ND	B1.2.2
2	2.01(a)	Excavation in all materials.	5.5	5.5	0	12,000	13,139	6,265	6,265	B1.2.3
2	3.01(b)	Sub-base 200 mm thick.	4.3	4.66	(10,474)	24,000	29,095	21,909	11,435	B1.2.3
2	3.02(c)	Base course 200 mm thick.	8.6	5.07	76,414	21,000	21,647	5,564	81,978	B1.2.3
2	4.03(b)	Bituminous wearing course 50 mm thick.	8.29	6.75	32,588	21,000	21,161	1,335	33,923	B1.2.3
2	4.04(c)	Bituminous wearing course 70 mm thick.	10.88	8.52	45,999	21,000	19,491	(16,418)	29,581	B1.2.3
2	5.13	Precast curb stone	27.5	19	43,784	4,800	5,141	9,378	53,162	B1.2.3
					ND			93,437	ND	

ND: Not Determinable, refer to the attached explanatory notes.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza’s Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Saqqa & Khoudary Joint Venture (SKJV)**

(Currency: U.S. Dollar)

**Task order number 2 of contract 294-C-00-03-00208**

**General Note**

USAID/West Bank and Gaza awarded Saqqa and Khoudary Joint Venture under contract number 294-C-00-03-00208 a task order (task order number 2) with a total estimated price of USD 1,158,129 to undertake road rehabilitation in Bethlehem.

**B1.1.1**

**Contractor’s basis for the proposed unit price**

Saqqa & Khoudary Joint Venture (SKJV) subcontracted all the works under these items to a local contracting company called “Al Za’aqiq” Company (the Subcontractor). SKJV’s proposed unit prices were based on their experience in the field of contracting.

**Documentary evidence reviewed to verify actual costs**

- **The subcontract between SKJV and the Subcontractor (the Subcontract)**, which stated that the Subcontractor was responsible for providing all the materials, equipment and labor needed to perform the work.
- **Progress payments made by SKJV to the Subcontractor**, although stipulated in the Subcontract, no official tax invoices were submitted by the Subcontractor, and payments were made by SKJV to the subcontractor based on progress reports.
- The actual costs column in schedule B1.1 represents the actual prices paid by SKJV to the Subcontractor.

**Were funds used for intended purposes?**

Our review indicated that funds were generally used for purposes of the subject task order. However, SKJV has subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, SKJV did not disclose the substance of FAR 52.203-6 in the subcontract agreement. The Subcontract however included wording to the effect that all tasks and responsibilities of SKJV towards USAID are transferred to the Subcontractor.

Did item cost exclude VAT?

The Subcontract agreement between SKJV and the Subcontractor stated that prices are VAT exclusive and also stated that the Subcontractor shall submit zero VAT invoices to SKJV. However neither zero VAT nor VAT inclusive invoices were submitted, which indicates that item cost most probably excluded VAT.

Actual quantities

The actual quantity column in schedule B1.1 represents the quantities completed by the Subcontractor according to the measurements reported in CH2M HILL's progress report. SKJV used the same measurements to pay the Subcontractor.

**B1.1.2**

Contractor's basis for the proposed unit price

SKJV purchased the precast curbstone and the concrete necessary for installation from external suppliers, and hired labor to do the installation and painting works. Other needed works such as excavation and cleaning was done internally. The proposed unit price for the supply and installation of curbstone was based on SKJV's experience.

Documentary evidence reviewed to verify actual costs

SKJV maintained separate records for the costs associated with this item. We reviewed samples of invoices for curbstone and concrete and found them to be generally adequate. We also reviewed samples of invoices for labor costs. Based on our review, the total material and labor paid cost per linear meter was approximately USD 9.47. Cost of equipment usage is not available. However, based on our experience with other contractors, the equipment usage cost brings the total unit cost to approximately USD 12.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

SKJV pays and refunds VAT on its purchases since SKJV is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

SKJV maintained separate records for the curbstone, concrete and labor costs associated with this item. However, we used the actual quantities as per the CH2M Hill's progress reports because SKJV's records reflect actual quantities in different measurement units (i.e m<sup>3</sup> for concrete rather than linear meter) which requires conversion for comparative purposes. We converted samples to linear meters and found them to reasonably approximate CH2M Hill reports.

**Task order number 1&2 of contract 294-C-00-03-00209**

**General Note**

USAID/West Bank and Gaza awarded Saqqa and Khoudary Joint Venture under contract number 294-C-00-03-00209 two task orders (task orders number 1&2) with a total estimated price of USD 2,000,000 to undertake road rehabilitation in Jenin and Betunia.

**B1.2.1**

**Contractor's basis for the proposed unit price**

Saqqa & Khoudary Joint Venture (SKJV) subcontracted all the works under these items to a local contracting company called "Al Zayed" Contracting Company (the Subcontractor). SKJV's proposed unit prices were based on their experience in the field of contracting.

**Documentary evidence reviewed to verify actual costs**

- The subcontract between SKJV and the Subcontractor (the Subcontract). According to this Subcontract, the Subcontractor was responsible for providing all the materials, equipment and labor needed to perform the work.
- Progress payments made by SKJV to the Subcontractor. Although stipulated in the Subcontract, no official tax invoices were submitted by the Subcontractor, and payments were made by SKJV to the subcontractor based on progress reports.

**Note:**

The actual costs column in schedule B1.2 represents the actual prices paid by SKJV to the Subcontractor. We noted a change in the cost of item 3.02(c) (base course 200 mm thick). This item was subcontracted at NIS 12 (USD 2.7) per square meter, and this rate was applied to approximately 13,300 square meters out of the total area of 16,999 square meters and the remaining quantity was billed at rates ranging from NIS 25 (USD 5.63) to NIS 35 (USD 7.88). SKJV explained that the base course applied to side walks and medians commands a higher cost because more time and labor's required. The USD 3.5 appearing under the actual cost column in schedule B1.2 above represents an approximate average of the actual prices paid for this item [3.02(c)].

Were funds used for intended purposes?

Our review indicated that funds were generally used for purposes of the subject task order. However, SKJV has subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, SKJV did not disclose the substance of FAR 52.203-6 in the subcontract agreement. The Subcontract however included wording to the effect that all tasks and responsibilities of SKJV towards USAID are transferred to the Subcontractor.

Did item cost exclude VAT?

SKJV obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. On the other hand, the Subcontract agreement between SKJV and the Subcontractor stated that prices are VAT inclusive. The Subcontractor submitted neither zero VAT nor VAT inclusive invoices. We noted that SKJV paid the Subcontractor based on the VAT inclusive prices stated in the Subcontract, which indicates that the item cost most probably did not exclude VAT. If official VAT invoices were never issued by the Subcontractor, the end beneficiary of the VAT would have been the subcontractor rather than the VAT authority.

Actual quantities:

The actual quantity column in schedule B1.2 represents the quantities on the basis of which payments to the Subcontractor were made. Such quantities were higher than the quantities approved by CH2M Hill. The table below illustrates the differences:

<i>Item</i>	<i>Description</i>	<i>Actual Quantity - CH2M Hill</i>	<i>Actual Quantity - Subcontractor</i>	<i>Variance</i>
2.01(a)	Excavation in all materials.	14,929	14,929	0
2.02(a)	Subgrade replacement (200 mm)	4,282	5,502	1,220
2.02(c)	Topping (selected materials).	4,027	4,267	240
3.01(a)	Sub base 150 mm thick.	6,480	6,930	450
3.01(b)	Sub base 200 mm thick.	7,149	7,380	231
3.02(c)	Base course 200 mm thick.	16,888	16,999	111

## **B1.2.2**

### Contractor's basis for the proposed unit price

SKJV's proposed unit price of this item was based on experience in the field of contracting.

### Documentary evidence reviewed to verify actual costs

SKJV purchased ready hot asphalt mix from a local supplier. We reviewed samples of invoices which indicated that the cost of one ton of hot asphalt mix was around USD 26.5 (Note: 1 ton of hot asphalt mix yields approximately 7 m<sup>2</sup> at 50 mm thickness). SKJV utilized its own equipment and labor to perform the work. We could not verify actual equipment and labor costs per square meter of work since no costing system is maintained by SKJV. Accordingly, no actual cost figure was tabulated for this item.

### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

### Did item cost exclude VAT?

SKJV obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers, SKJV pays and refunds VAT on such purchases since SKJV is a commercial entity. Therefore, item cost excluded VAT.

### Actual quantities

SKJV records indicated that 2,985 tons of hot asphalt mix were purchased. This quantity was used for items 4.03(b) and 4.04 (b) in schedule B1.2. The 2,985 tons yield approximately 21,000 m<sup>2</sup> according to an average conversion unit obtained from different contractors. The actual quantities in CH2M Hill report for these two items are 10,192 m<sup>2</sup> and 12,549 m<sup>2</sup> respectively (totaling 22,741 m<sup>2</sup>) which approximates the quantities per SKJV records.

### **B1.2.3**

#### Contractor's basis for the proposed unit price

Saqqa & Khoudary Joint Venture (SKJV) subcontracted all the works under these items to ABU SHUSHEH. SKJV's proposed unit prices were based on their experience in the field of contracting.

#### Documentary evidence reviewed to verify actual costs

- The subcontract between SKJV and ABU SHUSHEH. According to this subcontract, the Subcontractor was responsible for providing all the materials, equipment and labor needed to perform the work.
- Progress payments made by SKJV to the Subcontractor. No official tax invoices were submitted by the Subcontractor and payments were made by SKJV to the subcontractor based on progress reports.
- Final settlement for the Subcontract.

#### Were funds used for intended purposes?

Our review indicated that funds were generally used for purposes of the subject task order. However, SKJV has subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, SKJV did not disclose the substance of FAR 52.203-6 in the subcontract agreement. The Subcontract however included wording to the effect that all tasks and responsibilities of SKJV towards USAID are transferred to the Subcontractor.

#### Did item cost exclude VAT?

SKJV obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. On the other hand, the Subcontract agreement between SKJV and the Subcontractor stated that prices are VAT exclusive. The Subcontractor (ABU SHUSHEH) did not submit official invoices. We noted that SKJV paid the Subcontractor based on the VAT exclusive prices stated in the Subcontract, which indicates that item cost most probably excluded VAT.

#### Actual quantities

The official record of actual quantities completed is the final progress report signed by both SKJV and ABU SHUSHEH. The quantities in this report reflect the same quantities reported in CH2M Hill final report.

### SKJV's Comments

We submitted to SKJV their respective schedule and the related notes and findings. Mr. Tareq Abdel Raheem, the financial manager of SKJV, provided us with a written response which included clarifications of certain points mentioned in the report. Our report was generally acceptable to SKJV. SKJV's written response is included in its entirety as appendix "A" to our report.

## Schedule B2

### Summary of Application of Agreed-Upon Procedures

#### Saqqa and Khoudary Ltd. (SKLTD)

Currency: U.S. Dollar

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity*</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01(a)	Excavation in all materials.	5.5	ND	ND	1,885	3,780	10,423	ND	B2.1
3.01(a)	Sub-base 150 mm thick.	3.6	ND	ND	1,850	5,643	13,655	ND	B2.2
3.02(c)	Base course 200 mm thick.	8.6	ND	ND	975	11,328	89,036	ND	B2.2
4.03(b)	Bituminous wearing course 50 mm thick.	7.2	4.9	18,823	10,000	8,184	(13,075)	ND	B2.3
4.04(b)	Bituminous binder course 60 mm thick.	8.6	4.9	41,914	6,500	11,328	41,521	ND	B2.3
				<b>ND</b>			<b>141,560</b>	<b>ND</b>	

\* Based on CH2M Hill reports.

**ND:** Not Determinable, refer to the attached explanatory notes.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza’s Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Saqqa & Khoudary Ltd.(SKLTD)**

(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Saqqa and Khoudary Ltd. under contract number 294-C-00-03-00213 a task order (task order number 2) with a total estimated price of USD 413,050 to undertake rehabilitation of the Gaza-Beit Hanoun road.

**B2.1**

**Contractor’s basis for the proposed unit price**

SKLTD owns all the equipment required for excavation. As a result, their proposed unit price was based on their past experience and their knowledge of market prices for similar equipment necessary to do similar work. SKLTD added certain margins for overhead and profit. Further, SKLTD does not maintain a costing system, and therefore reliable information about costs of products and activities is not available.

**Documentary evidence reviewed to verify actual costs**

In the absence of a costing system, and since no payments were made to suppliers, no documentary evidence was available for review purposes.

**Were funds used for intended purposes?**

Our work did not reveal any indications that funds were not used for intended purposes.

**Did item cost exclude VAT?**

SKLTD obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

### Actual quantities

There is no record of quantities excavated. The only available source of information is CH2M Hill's Progress Payment Reports. Each Progress Payment Report is ratified by SKLTD and CH2M Hill's engineers. We understood that SKLTD's project engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities reported in CH2M Hill progress reports.

## **B2.2**

### Contractor's basis for the proposed unit price

Proposed unit price was based on past experience and knowledge of market prices for similar work. SKLTD added certain margins for overhead and profit.

### Documentary evidence reviewed to verify actual costs

SKLTD purchased the sub-base from a local supplier who did not issue official tax invoices, rather payments were made based on payment requests. We reviewed samples of these payment requests.

For base course, we reviewed supplier invoices and noted that such invoices included the cost of base course only and excluded the cost of transportation. Further, SKLTD obtained partial invoices of the transportation costs (approximately 33% of transportation costs).

In addition, SKLTD used its own equipment and labor to complete the base course and sub-base works. We could not verify actual equipment and labor costs incurred in the absence of a costing system. Therefore, no figures for actual costs for these items were tabulated in schedule B2.

### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

### Did item cost exclude VAT?

SKLTD obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For purchases from external suppliers, SKLTD paid and refunded VAT on the quantities purchased supported by tax invoices. For items that were not supported by tax invoices (sub-base and partial cost of transportation), it is unlikely that SKLTD incurred VAT towards this item. Therefore, item cost excluded VAT.

### Actual quantities

A record of actual base course and sub-base quantities is available. SKLTD records indicated that approximately 990 m<sup>3</sup> of sub-base were purchased. This quantity is higher than the quantity shown in CH2M Hill report by around 325 m<sup>3</sup> (approximately 2,167 m<sup>2</sup>). The project engineer justified that the difference was used for item 2.02(a) (sub-grade replacement). CH2M Hill final report indicated that 586 m<sup>3</sup> (2,930 m<sup>2</sup> at a thickness of 20mm) of sub-grade replacement were completed which renders the engineer's justification reasonable.

For base course, SKLTD records indicated that 7,423 tons of base course were purchased. This quantity yields approximately 16,702 m<sup>2</sup> at 200mm thickness (Note: 1 ton of base course yields an average of approximately 2.25 m<sup>2</sup> at 200mm thickness according to aggregate information obtained during our work). The actual quantity per CH2M Hill report was 11,328 m<sup>2</sup>, which means that the quantity purchased by SKLTD is 47% higher than the quantity approved by CH2M Hill and billed to USAID. SKLTD justified the difference on the basis that it was used for curbstone installation which we could not reasonably verify. Therefore, actual quantities reported in schedule B2 for this item is the quantity reported by CH2M Hill.

### **B.2.3**

#### Contractor's basis for the proposed unit price

SKLTD's proposed unit price of this item was based on experience.

#### Documentary evidence reviewed to verify actual costs

SKLTD purchased ready hot asphalt mix from a local supplier. We reviewed related invoices, which indicated that the cost of one ton of hot asphalt mix was around USD 27.33 (Note: 1 ton of hot asphalt mix yields approximately 7 m<sup>2</sup> at 50 mm thickness). SKLTD leased the equipment needed to complete the asphalt works from the same supplier. According to the SKLTD's records, the lease cost was USD 7 per ton including the cost of the tack coat. We could not verify the equipment lease cost since no tax invoices were submitted to SKLTD by the supplier of the equipment.

Based on the above, and although we were unable to verify actual lease costs incurred for the equipment, the actual cost figure per m<sup>2</sup> of bituminous wearing and binder courses, as can be computed based on available information from SKLTD records, is USD 4.9 {(USD 27.33+USD 7)/7 m<sup>2</sup> per ton}.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

SKLTD obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers, SKLTD pays and refunds VAT on such purchases since SKLTD is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

SKLTD records indicated that 2,518 tons of hot asphalt mix were purchased. This quantity covers items 4.03(b) and 4.04 (b) in schedule B2. The 2,518 tons yield approximately 17,626 m<sup>2</sup> according to an average conversion unit obtained from different contractors. The actual quantities in CH2M Hill report for these two items were 8,184 m<sup>2</sup> and 11,328m<sup>2</sup> respectively (totaling 19,512 m<sup>2</sup>) which approximates the quantities per SKLTD records.

SKLTD's Comments

We submitted to SKLTD their respective schedule and the related notes and findings. Mr. Tareq Abdel Raheem, the financial manager of SKLTD, provided us with a written response which included clarifications of certain points mentioned in the report. Our report was generally acceptable to SKLTD. SKLTD's written response is included in its entirety as appendix "A" to our report.

### Schedule B3

#### Summary of Application of Agreed-Upon Procedures

#### Afaq General Contracting Group (AFAQ)

Currency: U.S. Dollar

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01(a)	Excavation to level in all materials	5.00	4.00	1,926	0	1,926	9,630	11,556	B3.1
3.02(c)	Base course 200 mm thick	3.70	3.20	1,819	0	3,637	13,457	15,276	B3.1
4.02	Bituminious tack coat (RC-70/ RC 250)	0.59	0.50	358	5,300	3,973	(783)	(425)	B3.1
4.03(b)	Bituminous wearing course 50 mm thick	6.3	5.40	3,576	5,300	3,973	(8,360)	(4,784)	B3.1
4.03(c)	Bituminous wearing course 60 mm thick	6.70	5.70	2,797	0	2,797	18,740	21,537	B3.1
4.08(a)	Asphalt milling 20 mm thick	1.10	0.85	993	5,300	3,973	(1,460)	(467)	B3.1
5.13	Supply and install precast curbstone	18.00	13.00	925	640	185	(8,190)	(7,265)	B3.1
5.15	Supply and install interlocking block	28.00	24.00	3,520	1,880	880	(28,000)	(24,480)	B3.1
				<b>15,914</b>			<b>(4,966)</b>	<b>10,948</b>	

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**Explanatory notes - Afaq General Contracting Group (AFAQ)**  
(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Afaq General Contracting Group under contract number 294-C-00-03-00216 a task order (task order number 1) with a total estimated price of USD 135,014 to undertake road rehabilitation in Nablus.

**B3.1**

**Contractor’s basis for the proposed unit price**

Afaq General Contracting Group (AFAQ) has subcontracted all the works under the task order to a local contracting company “Al-Sarh” General Contracting Company (the Subcontractor) for the sum of USD 103,433. AFAQ’s proposed unit prices were based on the price quotation obtained from the Subcontractor plus profit and overhead margins.

**Documentary evidence reviewed to verify actual costs**

- **The subcontract between AFAQ and the Subcontractor (the Subcontract).** According to this Subcontract, AFAQ’s role was limited to engineering supervision while all other tasks were carried out by the Subcontractor who was responsible for providing all the materials, equipment and labor needed to perform the work.
- **Progress payments made by AFAQ to the Subcontractor.**
- **Final settlement between AFAQ and the Subcontractor** indicating that the latter has received all the payments related to task order No. 1 from AFAQ according to the agreed measurements and the unit prices.

**Note:** the numbers in the actual costs column in schedule B3 represent the actual prices incurred by AFAQ to the Subcontractor.

Were funds used for intended purposes?

Our review indicated that funds were generally used for purposes of the subject task order. However, AFAQ has subcontracted the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, AFAQ did not disclose the substance of FAR 52.203-6 in the subcontract agreement.

In addition to the above, AFAQ withheld USD 16,976 from the Subcontract total billing as settlement of the Subcontractor's dues to certain companies affiliated to AFAQ.

Did item cost exclude VAT?

The Subcontract agreement between AFAQ and the Subcontractor stated that prices are VAT exclusive.

Actual quantities

The actual quantity column in schedule B3 represents the quantities performed by the Subcontractor according to the measurements reported in CH2M HILL's progress report. AFAQ used the same measurements to pay the Subcontractor.

AFAQ's Comments

We submitted to AFAQ their respective schedule and the related notes and findings but we have not received their response yet.

## Schedule B4

### Summary of Application of Agreed-Upon Procedures

#### Arab Contractors - Palestine (ARAB CONTRACTORS)

Currency: U.S. Dollar

*B4.1 Task order number 1 of contract 294-C-00-03-00215*

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01(a)	Excavation to level in all materials	5.2	ND	ND	3,500	3,108	(2,038)	ND	B4.1.1
3.02(a)	Base course 100 mm thick	4.0	ND	ND	4,600	2,213	(9,548)	ND	B4.1.2
3.02(c)	Base course 200 mm thick	4.5	ND	ND	7,400	16,356	40,302	ND	B4.1.2
4.01	Prime coat ( MC-70).	1.1	0 <sup>(A)</sup>	15,277	7,500	13,888	7,027	22,304	B4.1.3
4.02	Bituminous tack coat (RC-70/ RC 250)	1.1	0 <sup>(B)</sup>	22,559	20,000	20,508	559	23,118	B4.1.3
4.03(b)	Bituminous wearing course 50 mm thick	8.6	6.5	43,067	20,000	20,508	4,369	47,436	B4.1.3
4.04(a)	Bituminous binder course 50 mm thick	8.5	6.5	23,348	7,500	11,674	35,479	58,827	B4.1.3
4.05	Asphalt wearing course for side walks 30 mm thick.	5.4	4	3,098	4,600	2,213	(12,890)	(9,792)	B4.1.3
4.07	Hot asphalt mix for patching and leveling course.	70	40	1,260	0	42	2,940	4,200	B4.1.3
5.13	Supply and install precast curbstone	26.4	ND	ND	2,000	1,295	(18,612)	ND	B4.1.4
				<b>ND</b>			<b>47,588</b>	<b>ND</b>	

(A) included in the actual cost of items 4.04(a) and 4.05.

(B) included in the actual cost of item 4.03(b).

**ND:** Not Determinable, refer to the attached explanatory notes.

*B4.2 Task orders number 2 of contract 294-C-00-03-00217*

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01(a)	Excavation to level in all materials	5.2	ND	ND	13,500	9,294	(21,871)	ND	B4.2.1
3.01(b)	Sub base 100 mm thick	4.5	ND	ND	19,200	3,260	(71,730)	ND	B4.2.1
3.02(c)	Base course 200 mm thick	4.5	ND	ND	62,000	60,511	(6,701)	ND	B4.2.1
4.01	Prime coat ( MC-70).	1.1	ND	ND	38,400	44,620	6,842	ND	B4.2.1
4.02	Bituminous tack coat (RC-70/ RC 250)	1.1	ND	ND	34,700	37,760	3,366	ND	B4.2.1
4.03(b)	Bituminous wearing course 50 mm thick	8.6	ND	ND	34,700	31,702	(25,783)	ND	B4.2.1
4.04(a)	Bituminous binder course 50 mm thick	8.6	ND	ND	34,700	38,540	33,024	ND	B4.2.1
4.05	Asphalt wearing course for side walks 30 mm thick.	5.4	ND	ND	4,400	3,672	(3,931)	ND	B4.2.1
				<b>ND</b>			<b>(86,784)</b>	<b>ND</b>	

**ND:** Not Determinable, refer to the attached explanatory notes.

*Task Order Number 3:*

The items and findings for task order number 3 are similar to those of task order number 2. In addition, the value of task order number 3 is only 6.9% of task order number 2. Based on the above, we decided not to repeat the above schedule.

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Rehabilitation Project Phase I**

**Explanatory notes - Arab Contractors - Palestine (ARAB CONTRACTORS)**  
(Currency: U.S. Dollar)

***Task order number 1 of contract 294-C-00-03-00215***

**General Note**

USAID/West Bank and Gaza awarded Arab Contractors - Palestine under contract number 294-C-00-03-00215 a task order (task order number 1) with a total estimated price of USD 615,509 to undertake rehabilitation of the city of “Halhoul “internal roads.

ARAB CONTRACTORS is located in Gaza and the work was performed in the West Bank. Accordingly, ARAB CONTRACTORS hired an agent “Mahmoud Karaja” (the Agent) to manage the job. This Agent undertook the responsibility of hiring labor, companies and equipment through direct negotiations. We called this Agent by phone and he informed us that selection of service providers was not based on competition; rather it was based on his decision taking into consideration the location constraints.

Most of the payments made to suppliers and service providers were not supported by official supporting documents. As we understood from the Agent, the suppliers and service providers signed a form to the effect that they have received their dues. In most cases, such forms did not specify the amounts paid.

Further, ARAB CONTRACTORS provided us, through the Agent, with a document comprising the breakdown of proposed unit prices. For each item, ARAB CONTRACTORS listed direct unit costs and added a figure for overhead and profit

In addition, ARAB CONTRACTORS provided us with a listing of the expenditures incurred for this task order. This listing was prepared using an Excel sheet and did not generate from an accounting system. As we understood from the Agent, the listing was recently prepared by an accountant hired by the Agent. We understood based on discussion with the Agent that the accountant works with him on different projects and was not a fully dedicated accountant of ARAB CONTRACTORS.

Finally, we required the Agent to provide for us the original supporting documents related to the task order. He informed us that such documents are maintained by the accountant and that he will try to arrange for us to review such documents. Todate we have not received any such documents.

#### **B4.1.1**

##### Contractor's basis for the proposed unit price

ARAB CONTRACTORS subcontracted the excavation works to a local contractor named "Salah Karaja" (the Subcontractor). ARAB CONTRACTORS' proposed unit price was based on their experience in the tabulated of contracting.

##### Documentary evidence reviewed to verify actual costs

There were no supporting documents for us to review. The listing of expenditures indicated that NIS 95,500 (USD 21,705) was paid to the Subcontractor which is greater than the amount received by ARAB CONTRACTORS from USAID. We could not verify actual unit cost and therefore no figure was tabulated in schedule B4.1.

##### Were funds used for intended purposes?

We have no means of verifying whether funds were used for intended purposes since no sufficient competent documents were available. In addition, ARAB CONTRACTORS has subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, there was no written agreement with the Subcontractor.

##### Did item cost exclude VAT?

Unlike the other contractors, ARAB CONTRACTORS did not obtain VAT exemption from the Palestinian Authority. The Subcontractor did not issue an official tax invoice, so the item cost most probably excluded VAT.

##### Actual quantities:

The actual quantity for this item as shown in schedule B4.1 represents the quantities reported in CH2M HILL's progress report. No other source of information is available.

#### **B4.1.2**

##### Contractor's basis for the proposed unit price

The listing of expenditures referred to in the general note above indicated that ARAB CONTRACTORS, through the Agent, purchased the materials and leased the equipment needed to do the work under these items. ARAB CONTRACTORS' proposed unit price was based on their experience in the field of contracting.

Documentary evidence reviewed to verify actual costs

It appears that purchases were made without supporting invoices. We were not able to review any documents to verify actual costs and therefore no figure was tabulated in schedule B4.1

Were funds used for intended purposes?

We have no means of verifying this matter because no sufficient competent documents were available. In addition, ARAB CONTRACTORS subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, there was no written agreement with the Subcontractor.

Did item cost exclude VAT?

Unlike the other contractors, ARAB CONTRACTORS did not obtain VAT exemption from the Palestinian Authority. The suppliers did not issue official tax invoices, the payments were made against receipt vouchers, therefore, the item cost most probably excluded VAT.

Actual quantities:

The actual quantity for this item as shown in schedule B4.1 represents the quantities reported in CH2M HILL's progress report. No other source of information is available.

**B4.1.3**

Contractor's basis for the proposed unit price

ARAB CONTRACTORS subcontracted all the asphalt works to OCEAN (the Subcontractor). ARAB CONTRACTORS' proposed unit price was based on their experience in the field of contracting.

Documentary evidence reviewed to verify actual costs

- The subcontract between ARAB CONTRACTORS and the Subcontractor (the Subcontract). According to this Subcontract, ARAB CONTRACTORS' role was limited to provide the work plan and safety requirements while all other tasks were carried out by the Subcontractor who was responsible for providing all the materials, equipment and labor needed to perform the work.
- Progress payments made by ARAB CONTRACTORS to the Subcontractor.

- Final settlement between ARAB CONTRACTORS and the Subcontractor which indicates that the latter has received all the payments due from ARAB CONTRACTORS.
- The official tax invoice issued by OCEAN to ARAB CONTRACTORS (the invoice covered task order number 2 of the same contract which is not part of our scope of work).

**Note:** Actual cost figures shown in schedule B4.1 above represent rates agreed between ARAB CONTRACTORS and OCEAN.

Were funds used for intended purposes?

Our review indicated that funds were generally used for purposes of the subject task order. However, ARAB CONTRACTORS subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, ARAB CONTRACTORS did not disclose the substance of FAR 52.203-6 in the subcontract agreement.

Did item cost exclude VAT?

Unlike the other contractors, ARAB CONTRACTORS did not obtain VAT exemption from the Palestinian Authority. The Subcontractor issued an official tax invoice to ARAB CONTRACTORS who was not able to refund such VAT (USD 67,539) from the Palestinian Authority. Accordingly item cost included VAT.

Actual quantities:

The actual quantity for this item as shown in schedule B4.1 represents the quantities reported in CH2M HILL's progress report, such quantities differed from quantities billed by OCEAN (the Subcontractor) to ARAB CONTRACTORS. The major difference was in item 4.03(b) - bituminous wearing course 50 mm thick. The quantity per CH2M Hill report was 20,508 square meters while it was 47,455 square meters in the final settlement document between ARAB CONTRACTORS and OCEAN. ARAB CONTRACTORS explained that this quantity (47,455 square meters) included quantity related to task order number 2 which is not part of our scope of work.

#### **B4.1.4**

##### Contractor's basis for the proposed unit price

ARAB CONTRACTORS purchased the precast curbstone, concrete, paints and other materials necessary to install the curbstone from external suppliers and hired labor to do the installation and painting works. The proposed unit price was based on their experience in the field of contracting.

##### Documentary evidence reviewed to verify actual costs

- We reviewed samples of curbstone invoices. The cost of 1 linear meter of curbstone was USD 3.90 including VAT.
- ARAB CONTRACTORS hired a local contractor to provide labor (without a written contract) for the installation and painting works. ARAB CONTRACTORS' listing of expenditures indicated that NIS 36,476 (USD 8,366) was paid for curbstone installation and painting (we could not verify actual payment). The average installation and painting cost per 1 linear meter of curbstone based on the actual quantity approved in CH2M Hill final report (1,295 linear meters) was USD 6.46.
- For concrete, ARAB CONTRACTORS' listing of expenditures indicated that NIS 32,159 (USD 7,309) was paid for concrete used in this item and other items (we could not verify actual payment). There is no record of concrete used for this item only.
- Based on the above, the total actual cost paid for 1 linear meter of curbstone, excluding concrete which we could not adequately verify, was USD 10.36.
- Since we could not adequately verify the actual cost of internally owned equipment and the cost of concrete, no actual cost figure was tabulated in schedule B4.1.

##### Were funds used for intended purposes?

For curbstone purchases, our work did not reveal any indications that funds were not used for intended purposes. We could not verify this matter for hired services (installation...etc.), since we did not receive supporting documents.

##### Did item cost exclude VAT?

Unlike the other contractors, ARAB CONTRACTORS did not obtain VAT exemption from the Palestinian Authority. The suppliers of curbstone and concrete issued official tax invoices (including VAT) to ARAB CONTRACTORS who was not able to refund such VAT. Accordingly item cost included VAT. For services (installation...etc.), no tax invoices were issued, accordingly item cost most probably excluded VAT.

### Actual quantities

ARAB CONTRACTORS's records indicated that 1,710 linear meters of curbstone were purchased. According to information obtained from other contractors, curbstone usually results in around 5% waste. So this quantity yields a net of 1,625 linear meters which is 25% higher than the actual quantity approved in CH2M Hill report (1,295 linear meters).

Based on the above, we used the quantity approved in CH2M Hill report to tabulate schedule B4.1 above because installation work was undertaken by a third party and no records of actual quantities was available.

### Task order number 2&3 of contract 294-C-00-03-00217

#### General Note

USAID/West Bank and Gaza awarded Arab Contractors - Palestine under contract number 294-C-00-03-00217 two task orders (task orders number 2&3) with a total estimated price of USD 1,630,194 to rehabilitate "Jama'in "road.

#### **B4.2.1**

#### Contractor's basis for the proposed unit price

ARAB CONTRACTORS' proposed unit price was based on their experience in the field of contracting.

#### Documentary evidence reviewed to verify actual costs

ARAB CONTRACTORS is located in Gaza and the work was performed in the West Bank. Accordingly, ARAB CONTRACTORS hired an agent "Mahmoud Karaja" (the Agent) to manage the job. This Agent undertook the responsibility of hiring labor, companies and equipment through direct negotiations. We called this Agent by phone and he informed us that selection of service providers was not based on competition; rather based on his decision taking into consideration the location constraints.

Most of the payments made to suppliers and service providers were not supported by official supporting documents. As we understood from the Agent, the suppliers and service providers signed a form to the effect that they have received their dues. In most cases, such forms did not specify the amounts paid.

In addition, ARAB CONTRACTORS provided us, through the Agent, with a listing comprising the breakdown of proposed unit prices. For each item, ARAB CONTRACTORS listed direct unit costs and added a figure for overhead and profit

In addition, ARAB CONTRACTORS provided us with a listing of the expenditures incurred for this task order. This listing was prepared using an Excel sheet and did not generate from an accounting system. As we understood from the Agent, the listing was recently prepared by an accountant hired by the Agent. We understood based on discussion with the Agent that the accountant works with him on different projects and was not a fully dedicated accountant of ARAB CONTRACTORS.

Finally, we requested the Agent to provide for us the original supporting documents related to the task order. He informed us that such documents are maintained by the accountant and that he will try to arrange for us to review such documents. To date we have not received any such documents.

Were funds used for intended purposes?

We have no means of verifying whether funds were used for intended purposes since no sufficient competent documents were available. In addition, ARAB CONTRACTORS has subcontracted the major tasks under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis. Further, there was no written agreement with the Subcontractor.

Did item cost exclude VAT?

Unlike the other contractors, ARAB CONTRACTORS did not obtain VAT exemption from the Palestinian Authority. Suppliers and service providers did not issue official tax invoices, and payments were made against preprinted forms. Therefore, the item cost most probably excluded VAT.

Actual quantities:

The actual quantity for this item as shown in schedule B4.2 represents the quantities reported in CH2M HILL's progress report. No other source of information is available.

ARAB CONTRACTORS's Comments

We submitted to ARAB CONTRACTORS their respective schedule and the related notes and findings. Mr. Ahmed El Sakhawy, the general manager of ARAB CONTRACTORS, provided us with a written response in which he disagreed with certain points in our report such as the selection of subcontractors. He also elaborated on other points in our report such as the relationship with their agent at the time of the project (Mahmoud Karaja) and the VAT issue. ARAB CONTRACTORS's written response is included in its entirety as appendix "B" to our report.

*Our Response to ARAB CONTRACTORS's Comments*

Our report was based on factual findings resulting from our work. ARAB CONTRACTORS was the last contractor to provide us with information due to the lack of readily available records. Mr. El Sakhawy's comment in respect of compliance with subcontracting regulations contradicts the information provided by his Agent (selection of subcontractors was based on direct negotiation rather than on competition).

## Schedule B5

### Summary of Application of Agreed-Upon Procedures

#### Ocean Contracting and Investment Co. Ltd. (OCEAN)

Currency: U.S. Dollar

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity*</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01(a)	Excavations in all materials	6	ND	ND	0	2,020	12,120	ND	B5.1
3.02(a)	Base course 100 mm thick	3.8	ND	ND	5,000	2,251	(10,446)	ND	B5.2
3.02(c)	Base course 200 mm thick	6.18	ND	ND	0	1,689	10,438	ND	B5.2
4.02	Tack coat (RC70 or RC250)	0.92	ND	ND	33,000	34,291	1,188	ND	B5.3
4.03(b)	50 mm thick bituminous wearing course	7.13	ND	ND	33,000	35,673	19,058	ND	B5.4
4.08(a)	Asphalt milling 20 mm thick	1.43	ND	ND	32,250	34,291	2,919	ND	B5.1
5.13	Supply and install precast curbstone	17.10	ND	ND	3,280	4,305	17,528	ND	B5.5
5.15	Supply and install interlocking blocks	28.22	ND	ND	1,000	1,636	17,948	ND	B5.6
				ND			70,753	ND	

\* Based on CH2M Hill reports.

ND: Not Determinable, refer to the attached explanatory notes.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza's Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Ocean Contracting and Investment Co. Ltd. (OCEAN)**  
(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Ocean Contracting and Investment Co. Ltd. under contract number 294-C-00-03-00214 a task order (task order number 2) with a total estimated price of USD 603,611 to undertake road rehabilitation in Hebron.

OCEAN owns an asphalt factory, a stone crusher and all needed equipment for the job. Therefore, most of the items and works needed for the subject task order were internally supplied. Further, OCEAN does not maintain a costing system, and therefore reliable information about costs of products and activities is not available.

OCEAN maintains a cost center (segregated financial record) for the USAID project as a whole which is charged with all material delivery notes (base course, concrete, hot asphalt mix, curbstone...etc) issued to the USAID project with no separation of records by task order.

**B5.1**

**Contractor's basis for the proposed unit price**

OCEAN owns all the equipment required for excavation/milling. OCEAN maintained a detailed Excel sheet for pricing in which the proposed unit prices were broken down to components. The proposed unit price for excavation/milling was based on the estimated direct labor and equipment cost (estimated by OCEAN based on experience) plus an overhead margin for excavation (no profit or risk factors were applied). Overhead, profit and risk margins were applied for milling.

**Documentary evidence reviewed to verify actual costs**

In the absence of a costing system as mentioned above, and since no payments were made to suppliers, there was no documentary evidence for us to review.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

OCEAN obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

Actual quantities

There is no record of excavation/milling works. The only available source of information is CH2M Hill's Progress Payment Reports. Each Progress Payment Report is ratified by OCEAN and CH2M Hill's engineer. We understand that OCEAN's projects' engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports

**B5.2**

Contractor's basis for the proposed unit price

As mentioned above, OCEAN owns a stone crusher which supplies all its projects with base course. OCEAN maintained a detailed Excel sheet for pricing in which the proposed unit prices were broken down to components. The proposed unit price for base course was based on the estimated direct materials, labor and equipment cost (estimated by OCEAN based on experience) plus overhead, profit and risk margins.

Documentary evidence reviewed to verify actual costs

Since no payments were made to suppliers, there was no directly related documentary evidence to review except the costing Excel sheet that we discussed with the projects' engineer. To get some comfort, we reviewed samples of base course sale invoices to third parties. We concluded that OCEAN used unit prices that are lower than prices for third parties as basis for the proposed unit price.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

OCEAN obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

Actual quantities

Since OCEAN maintains records of base course issued to the USAID project as a whole and not for each task order individually, we were unable to verify the actual quantities issued to the task order under review. Since more than one task order were running simultaneously, we could not utilize the timing of each task order to split the quantities. However, we reviewed all delivery notes issued to the USAID project as a whole. We noted that OCEAN's records indicated that in general, actual materials used were generally greater than quantities approved by CH2M Hill and billed to USAID. The Projects' Engineer at OCEAN explained that they had to put more materials in certain locations which were not finally billed to USAID. We could not verify this matter since engineering computations are involved. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B5.3**

Contractor's basis for the proposed unit price

OCEAN maintained a detailed Excel sheet for pricing in which the proposed unit prices were broken down to components. The proposed unit price for the tack coat was based on the actual direct material cost and estimated direct labor and equipment cost (estimated by OCEAN based on experience) plus overhead, profit and risk margins. We verified that the actual direct material cost used by OCEAN in pricing was in agreement with actual prices paid for tack coat. We could not verify other price elements (labor and equipment) since they are estimated based on experience.

Documentary evidence reviewed to verify actual costs

Tack coat is supplied by the Palestinian General Petroleum Authority at standard prices to all contractors. We reviewed tack coat purchases during the task order approximate period.

Since the actual cost includes elements other than direct materials (such as labor and the cost of equipment) which we could not reasonably quantify, no actual cost figure was tabulated in schedule B5.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

OCEAN obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. OCEAN paid and refunded VAT on tack coat purchases since OCEAN is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since OCEAN maintains records of tack coat and other chemical materials issued to the USAID project as a whole and not for each task order individually, we were unable to verify the actual quantities issued to the task order under review. Since more than one task order were running simultaneously, we could not utilize the timing of each task order to split the quantities. OCEAN relied on CH2M Hill's Progress Payment Reports which were ratified by OCEAN and CH2M Hill's engineers. We understand that OCEAN's projects' engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B5.4**

Contractor's basis for the proposed unit price

As mentioned in the general note above, OCEAN owns an asphalt factory which supplies it all its projects with hot asphalt mix. OCEAN maintained a detailed Excel sheet for pricing in which the proposed unit prices was broken down to components. The proposed unit price for bituminous wearing course was based on the estimated direct materials, labor and equipment costs (estimated by OCEAN based on experience) plus overhead, profit and risk margins.

Documentary evidence reviewed to verify actual costs

Since only the liquid bitumen was purchased from external suppliers, our review of supporting documents was limited to samples of the liquid bitumen invoices. The liquid bitumen is supplied by the Palestinian General Petroleum Authority at standard prices to all contractors.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

OCEAN obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as liquid bitumen, OCEAN pays and refunds VAT on such purchases since OCEAN is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since OCEAN maintains records of asphalt issued to the USAID project as a whole and not for each task order individually, we were unable to verify the actual quantities issued to the task order under review. Since more than one task order were running simultaneously, we could not utilize the timing of each task order to split the quantities. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B5.5**

Contractor's basis for the proposed unit price

OCEAN purchased the precast curbstone and concrete necessary to install the curbstone from external suppliers, and was hired for the installation and painting works. Other needed works such as excavation and cleaning were done internally. The proposed unit price for the supply and installation of curbstone was based on the actual direct materials (curbstone , concrete and paint) costs, estimated direct labor and equipment costs (estimated by OCEAN based on experience), plus overhead, profit and risk margins. We verified that the actual direct material cost used by OCEAN in pricing reflects actual prices paid for such materials. We could not verify other price elements (labor and equipment) since they are estimated based on experience.

Documentary evidence reviewed to verify actual costs

We reviewed curbstone, concrete and paints settled invoices which were generally adequate.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

OCEAN obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as ready concrete mix and curbstone, OCEAN paid and refunded VAT on such purchases since OCEAN is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since OCEAN maintains records of concrete and other materials issued to the USAID project as a whole and not for each task order individually, we were unable to verify the actual quantities issued to the task order under review. In addition since more than one task order were running simultaneously, we could not utilize the timing of each task order to split the quantities. OCEAN relied on CH2M Hill's progress payment reports which were ratified by OCEAN and CH2M Hill's engineer. We understand that OCEAN's projects' engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B5.6**

Contractor's basis for the proposed unit price

OCEAN purchased the interlocking blocks and sand necessary for installation from external suppliers, and labor was hired for installation. Other needed works such as excavation and leveling were done internally. Base course was also supplied internally. The proposed unit price for the supply and installation of interlocking blocks was based on the actual direct materials (curbstone and sand) cost and estimated direct labor and equipment cost (estimated by OCEAN based on experience) plus overhead, profit and risk margins.

Documentary evidence reviewed to verify actual costs

We reviewed interlocking blocks settled invoices. There was no documentary evidence for payments made for labor hired for block installation.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

OCEAN obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as ready concrete mix and curbstone, OCEAN paid and refunded VAT on such purchases since OCEAN is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since OCEAN maintains records of concrete and other materials issued to the USAID project as a whole and not for each task order individually, we were unable to verify the actual quantities issued to the task order under review. Since more than one task order were running simultaneously, we could not utilize the timing of each task order to split the quantities. OCEAN relied on CH2M Hill's progress payment reports which were ratified by OCEAN and CH2M Hill's engineer. We understand that OCEAN's projects' engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

OCEAN's Comments

We submitted to OCEAN their respective schedule and the related notes and findings. OCEAN responded in an email noting their acceptance of our report. A copy of OCEAN's response is attached as appendix "C" to our report.

## Schedule B6

### Summary of Application of Agreed-Upon Procedures

#### Abu Wardah Co. Ltd. (ABU WARDAH)

Currency: U.S. Dollar

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity*</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01(a)	Excavation in all materials.	3.5	ND	ND	0	2,300	8,050	ND	B6.1
3.01(b)	Sub base 200 mm thick.	4.0	ND	ND	1,500	4,621	12,484	ND	B6.2
3.02(c)	Base course 200 mm thick.	8.0	ND	ND	1,238	4,621	27,064	ND	B6.3
4.03(b)	Bituminous wearing course 50 mm thick.	5.8	ND	ND	0	12,232	70,946	ND	B6.4
4.04(b)	Bituminous binder course 60 mm thick.	7.2	ND	ND	0	5,054	36,389	ND	B6.4
5.13	Supply and install precast curbstone.	12	ND	ND	3,500	3,097	(4,836)	ND	B6.5
5.15	Supply and install interlocking blocks.	20	ND	ND	0	3,986	79,720	ND	B6.6
6.06(b)	Lighting column 12 m long double arm.	1,250	598	20,864	0	32	40,000	ND	B6.7
				<b>ND</b>			<b>269,817</b>	<b>ND</b>	

**ND:** Not Determinable, refer to the attached explanatory notes.

\* Based on CH2M Hill reports.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza’s Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Abu Wardah Co. Ltd.(ABU WARDAH).**

(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Abu-Wardah Co. Ltd. Under contract number 294-C-00-03-00212 one task order with a total estimated price of USD 437,474 to rehabilitate the “Beit Lahya “ main road in Gaza.

**B6.1**

**Contractor’s basis for the proposed unit price**

In order to complete this item, ABU WARDAH leased part of the needed equipment from external parties and utilized its own equipment and labor as well. Their proposed unit price was based on the experience of the Project manager and also internal engineering estimates. ABU WARDAH added overhead and profit margins which were also based on experience.

**Documentary evidence reviewed to verify actual costs**

ABU WARDAH has no costing system, therefore the cost of the utilized equipment and labor expended internally on this item could not be verified. On the other hand, we reviewed samples of the external supplier invoices related to this item. These invoices were billed based on the actual number of working hours (at USD 7.77 per hour including VAT) and not as m<sup>3</sup> and represented 369 work hours. We were unable to determine the actual cost paid per m<sup>3</sup> because we could not reasonably determine actual m<sup>3</sup> excavated per hour.

Further, ABU WARDAH records indicated that an additional 1,061 hours of excavations were paid to suppliers. No official invoices were available to support these hours. We reviewed payment requests and noted that working hours were billed at much higher rate per hour (USD 19.32) which is approximately 2.5 times greater than the costs supported by official invoices as mentioned in the preceding paragraph.

For internal labor, ABU WARDAH records do not provide details about actual labor cost for this item. Such records comprise information about labor cost for the task order as a whole.

In light of the above information, we could not verify the actual cost per unit, and therefore no figure for this item was tabulated in schedule B6 above.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT. Other than those portions of the excavation costs that were not supported by official tax invoices as mentioned previously, ABU WARDAH generally pays and refunds VAT on their external purchases since ABU WARDAH is a commercial entity.

Actual quantities

There is no record of the excavation works in m<sup>3</sup>. ABU WARDAH records indicated that a total of 1,430 excavation work hours (369 +1,061) were completed. We could not determine the number of m<sup>3</sup> this figure represents. Therefore, the only available source of information is CH2M Hill's Progress Payment Reports. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B6.2**

Contractor's basis for the proposed unit price

ABU WARDAH purchased the sub-base materials needed for this item from external suppliers, and used its own equipment for the spreading and compacting works. The proposed unit price was based on their past experience and knowledge of the market prices of similar works. ABU WARDAH added overhead and profit margins which were also based on experience.

Documentary evidence reviewed to verify actual costs

The sub-base purchases were not supported by official tax invoices or payment vouchers, so we had no supporting documents to review. ABU WARDAH records indicated that the cost paid for 1 m<sup>3</sup> of sub-base material was USD 3 including transportation.

For internally supplied labor, ABU WARDAH records do not provide details about the actual cost of such labor for this item but such records comprise information about labor cost for the task order as a whole.

We could not verify the actual costs incurred due to the utilization of the company equipment since no costing system was maintained and no records of internal equipment utilization existed.

In light of the above information, we could not verify the actual cost per unit, and therefore no figure for this item was tabulated in schedule B6 above.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

In general, ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For this item in specific, we could not verify this matter since no tax invoices were obtained to support these costs. However, it is unlikely that the item cost included VAT since it is uncommon to pay VAT without official tax invoices.

Actual quantities

Since there were no invoices, we could not verify actual quantities. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B6.3**

Contractor's basis for the proposed unit price

ABU WARDAH purchased the base course needed for this item from external suppliers, and used its own equipment for the spreading and compacting works. The proposed unit price was based on their past experience and knowledge of the market prices of similar works. ABU WARDAH added overhead and profit margins which were also based on experience.

Documentary evidence reviewed to verify actual costs

ABU WARDAH usually purchases base course in bulk for resale and for use in its projects. We reviewed samples of the bulk purchase invoices and noted that on average, the cost paid for 1 ton of base course including transportation to the site was approximately USD 6.4.

For internal labor, ABU WARDAH records do not provide details about actual labor for this item; such records included information about labor cost for the task order as a whole.

For internal equipment used, we could not verify actual costs since no costing system was maintained and no records of internal equipment utilization were maintained.

In light of the above information, we could not verify the actual cost per unit, and therefore no figure for this item was tabulated in schedule B6 above.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers ABU WARDAH pays and refunds VAT on such purchases since ABU WARDAH is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Base course issuances to the task order were not documented. No delivery notes were used. Therefore, we could not verify actual quantities. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

## **B6.4**

### Contractor's basis for the proposed unit price

The proposed unit price was based on their past experience and knowledge of the market prices of similar works. ABU WARDAH added overhead and profit margins which were also based on experience.

### Documentary evidence reviewed to verify actual costs

ABU WARDAH purchased ready hot asphalt mix from a local supplier. We reviewed samples of purchase invoices, which indicated that the cost of one ton of hot asphalt mix was around USD 27.35 (Note: 1 ton of hot asphalt mix yields approximately 7 m<sup>2</sup> at 50 mm thickness). ABU WARDAH leased equipment to complete the asphalt work, but no documents relating to the lease of this equipment were available and no related cost was recorded in the books of accounts.

For internally supplied labor, ABU WARDAH records do not provide details about actual labor costs for this item. Such records included information about labor cost for the task order as a whole.

Based on the above, no actual cost figure can be computed and therefore no cost figure was tabulated for these items in schedule B6.

### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

### Did item cost exclude VAT?

ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers ABU WARDAH pays and refunds VAT on such purchases since ABU WARDAH is a commercial entity. Therefore, item cost excluded VAT.

### Actual quantities

ABU WARDAH records indicated that 2,370 tons of hot asphalt mix were purchased. This quantity covers items 4.03(b) and 4.04 (b) in schedule B6. The 2,370 tons yield approximately 16,590 m<sup>2</sup> according to average conversion rate obtained from different contractors. The actual quantities in CH2M Hill report for these two items were 12,232 m<sup>2</sup> and 5,054 m<sup>2</sup> respectively (totaling 17,286 m<sup>2</sup>) which approximates the quantities per ABU WARDAH records.

## **B6.5**

### Contractor's basis for the proposed unit price

ABU WARDAH purchased the precast curbstone, concrete, paints and other materials necessary to install the curbstone from external suppliers and hired labor for the installation and painting works. The proposed unit price was based on their past experience and knowledge of the market prices of similar works. ABU WARDAH added overhead and profit margins which were also based on experience.

### Documentary evidence reviewed to verify actual costs

- We reviewed samples of curbstone settled invoices which were generally adequate. The cost per 1 linear meter of curbstone was USD 3.10.
- Equipment utilization costs had no supporting documents to review since they were owned by the company.
- For labor, ABU WARDAH hired two local persons for installation and painting works. ABU WARDAH's records indicated that the sum of NIS 52,443 (USD 11,920) was paid for curbstone installation and painting. So average installation and painting cost per 1 linear meter of curbstone was USD 3.85 based on the actual quantity approved in CH2M Hill final report (3,097 linear meters).
- For concrete, ABU WARDAH's records indicated that the sum of USD 8,621 including VAT was paid for concrete used in this item and item 5.17 (adjust level of frame and cover of existing manholes). We could not separate the two items.
- Based on the above, the total actual cost paid for 1 linear meter of curbstone, excluding equipment and concrete which we could not adequately verify, was USD 6.95.
- Since we could not adequately verify the actual cost of internal equipment and the cost of concrete, no actual cost figure was tabulated in schedule B6.

### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

### Did item cost exclude VAT?

ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as ready concrete mix and curbstone, ABU WARDAH pays and refunds VAT on such purchases since ABU WARDAH is a commercial entity. Therefore, item cost excluded VAT.

### Actual quantities

ABU WARDAH's records indicated that 3,355 linear meters of curbstone were purchased. According to ABU WARDAH, curbstone usually results in around 5% waste netting 3,187 linear meters which approximates the actual quantity approved in CH2M Hill report (3,097 linear meters).

For labor and equipment, no records of actual quantities were available.

For concrete, the actual quantity for this item and item 5.17 could not be separated.

Based on the above, we used the quantity approved in CH2M Hill report to tabulate schedule B6 above especially that ABU WARDAH used the CH2M Hill report to pay for curbstone installation and painting.

### **B6.6**

#### Contractor's basis for the proposed unit price

ABU WARDAH purchased the interlocking blocks and other materials necessary for installation from external suppliers and hired labor for the installation. Excavation and cleaning works were done internally. The proposed unit price was based on their past experience and knowledge of the market prices of similar works. ABU WARDAH added overhead and profit margins which were also based on experience.

#### Documentary evidence reviewed to verify actual costs

- We reviewed samples of interlocking blocks settled invoices which were generally adequate. The cost per square meter of interlocking blocks was USD 5.
- Equipment costs were internally utilized, therefore no supporting documents were available to review.
- For labor, ABU WARDAH hired a local person for the installation. ABU WARDAH's records indicated that the sum of NIS 12,500 (USD 2,841) was paid for interlocking blocks installation. Accordingly, average installation cost per square meter of interlocking blocks was USD 0.63 based on the actual quantity approved in CH2M Hill final report (4,503 square meters).
- For other materials (sub-base and base course), refer to note B6.2 and B6.3 above.
- Based on the above, the total actual cost paid per square meter of interlocking blocks, excluding equipment and other materials which we could not adequately verify, was USD 5.63.
- Since we could not adequately verify the actual cost of the internal utilization of equipment and the cost of other materials, no actual cost figure was tabulated in schedule B6.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers, ABU WARDAH pays and refunds VAT on such purchases since ABU WARDAH is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

ABU WARDAH's records indicated that 3,845 square meters of interlocking blocks were purchased. According to ABU WARDAH, interlocking blocks usually results in around 5% waste netting 3,653 linear meters which is approximately 19% less than the actual quantity approved in CH2M Hill report (4,503 square meters).

For labor, equipment and other materials, no records of actual quantities were available.

Based on the above, we used the quantity approved in CH2M Hill report to tabulate schedule B6 above.

**B6.7**

Contractor's basis for the proposed unit price

ABU WARDAH purchased the columns and the concrete base from on external supplier. Installation works were completed by hired labor. The proposed unit price was based on their past experience and knowledge of the market prices of similar works. ABU WARDAH added overhead and profit margins which were also based on experience.

Documentary evidence reviewed to verify actual costs

We reviewed the purchase invoices for the concrete bases and the lighting columns since these two items were purchased from external suppliers. The supplier invoices indicated that the cost of a lighting column with its base was approximately USD 415. Other accessories cost approximately USD 52 per column (no invoices existed). The cost of installation was USD 131 per column (total of USD 4,200) for which no invoices existed. Therefore, the total direct cost paid was USD 598 per column.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

ABU WARDAH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT. Other than installation costs that were not supported by official tax invoices as mentioned previously, ABU WARDAH generally pays and refunds VAT on their external purchases since ABU WARDAH is a commercial entity.

Actual quantities

Both the CH2MHILL and ABU WARDAH records were in agreement on the actual quantities installed under this task order.

ABU WARDAH's Comments

We submitted to ABU WARDAH their respective schedule and the related notes and findings but we have not received their response to date.

## Schedule B7

### Summary of Application of Agreed-Upon Procedures

#### Abu Shusheh General Contractor Co. (ABU SHUSHEH)

Currency: U.S. Dollar

*Task Order Number 1:*

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity*</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01 (a)	Excavation in all materials	6	ND	ND	2,250	1,636	(3,684)	ND	B7.1
3.01 (a)	Aggregate Sub-base 150 mm thick	3.4	ND	ND	675	0	(2,295)	ND	B7.2
3.02 (c)	Base course 200 mm thick	4.6	ND	ND	0	3,562	16,385	ND	B7.2
4.03 (b)	50 mm thick bituminous wearing course	7.2	ND	ND	4,500	7,772	23,558	ND	B7.3
4.04 (a)	50 mm thick bituminous binder course	7.3	ND	ND	8,246	0	(60,196)	ND	B7.3
4.04 (b)	60 mm thick bituminous binder course	8.5	ND	ND	0	3,562	30,277	ND	B7.3
4.08 (c)	Asphalt milling at 40 mm thick	2.1	ND	ND	0	6,295	13,220	ND	B7.1
5.09 (e)	10 cm side walk concrete	12	ND	ND	0	2,257	27,084	ND	B7.4
5.13	Supply and install precast curbstone	17.5	ND	ND	1,932	1,344	(10,290)	ND	B7.5
				<b>ND</b>			<b>34,059</b>	<b>ND</b>	

\* Based on CH2M Hill reports.

**ND:** Not Determinable, refer to the attached explanatory notes.

*Task Order Number 2:*

Since the USAID project was not accounted for separately, we decided not to repeat the above schedule for task order number 2 since the items and findings are similar.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza’s Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Abu Shusheh General Contractor Co. (ABU SHUSHEH)**  
(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Abu Shusheh General Contractors Co. under contract number 294-C-00-03-00210 two task orders (task orders number 1&2) with a total estimated price of USD 791,318 to undertake road rehabilitation in Ramallah.

ABU SHUSHEH owns an asphalt factory, a stone crusher and all needed equipment. Therefore, most of the items and works needed for the subject task orders were internally supplied. In addition, ABU SHUSHEH does not maintain a costing system, and therefore reliable information about costs of products and activities is not available.

ABU SHUSHEH does not maintain cost centers for its projects. It accounts for its overall operations as one unit. Accordingly, no separate records were maintained for the USAID project.

ABU SHUSHEH was generally conservative in disclosing information especially those related to pricing.

**B7.1**

**Contractor’s basis for the proposed unit price**

ABU SHUSHEH owns all the equipment required for excavation /milling. As a result, their proposed unit price was based on their past experience and their knowledge of market prices of similar equipment necessary to do similar work with additional margins for overhead and profit.

**Documentary evidence reviewed to verify actual costs**

In the absence of a costing system and project accounting, as mentioned above, and since no payments were made to suppliers, there was no documentary evidence to review.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

ABU SHUSHEH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

Actual quantities

There is no record of excavation/milling works. The only available source of information is CH2M Hill's Progress Payment Reports. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B7.2**

Contractor's basis for the proposed unit price

As mentioned above, ABU SHUSHEH owns a stone crusher and uses it to supply all its projects with base course. ABU SHUSHEH's proposed unit price of this item was based on experience.

Documentary evidence reviewed to verify actual costs

In the absence of a costing system and project accounting, as mentioned above, and since no payments were made to outsiders, there was no documentary evidence to review.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

ABU SHUSHEH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

### Actual quantities

No separate records were maintained for the USAID Project. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

### **B7.3**

#### Contractor's basis for the proposed unit price

As mentioned above, ABU SHUSHEH owns an asphalt factory and uses it to supply all its projects with hot asphalt mix. ABU SHUSHEH's proposed unit prices of these items were based on experience.

The only material that ABU SHUSHEH purchases from external suppliers is the liquid bitumen (PG 68-10).

For asphalt works, and since ABU SHUSHEH used its own equipment, proposed unit price was based on their past experience and their knowledge of market prices of similar equipment necessary to do similar work.

#### Documentary evidence reviewed to verify actual costs

Since only the liquid bitumen was purchased from external suppliers, our review of supporting documents was limited to the liquid bitumen invoices. The liquid bitumen is supplied by an Israeli vendor. We reviewed samples of liquid bitumen invoices.

#### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

#### Did item cost exclude VAT?

ABU SHUSHEH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as liquid bitumen, ABU SHUSHEH pays and refunds VAT on such purchases since ABU SHUSHEH is a commercial entity. Therefore, item cost excluded VAT.

### Actual quantities

No separate records were maintained for the USAID Project. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

### **B7.4**

#### Contractor's basis for the proposed unit price

ABU SHUSHEH purchases the ready mix concrete and metal from external suppliers at customary prices. The proposed item price was based on experience taking into account the actual cost paid.

#### Documentary evidence reviewed to verify actual costs

We reviewed the contract with the concrete supplier as well as supplier invoices supporting concrete and other materials purchases. Such supporting documents were generally adequate. Since the actual cost includes elements other than direct materials (such as labor and the cost of equipment) which we could not reasonably quantify, no actual cost figure was tabulated in the schedule.

#### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

#### Did item cost exclude VAT?

ABU SHUSHEH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as ready concrete mix and the metal grid, ABU SHUSHEH pays and refunds VAT on such purchases since ABU SHUSHEH is a commercial entity. Therefore, item cost excluded VAT.

### Actual quantities

No separate records were maintained for the USAID Project. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

## **B7.5**

### Contractor's basis for the proposed unit price

ABU SHUSHEH purchased the precast curbstone and concrete necessary to install the curbstone from external suppliers. Internal labor was utilized for installation, while painting works were hired. Other needed works such as excavation and cleaning were done internally. The proposed item price was based on experience taking into account the actual cost paid.

### Documentary evidence reviewed to verify actual costs

We reviewed curbstone and concrete settled invoices which were generally adequate. We also reviewed the documents supporting the payments for curbstone painting. The actual cost per linear meters of curbstone, concrete and painting (excavation, installation...etc. excluded) was around USD 8. Since the actual cost includes elements other than direct materials (such as labor and excavation) which we could not reasonably quantify, no actual cost figure was tabulated in the schedule.

### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

### Did item cost exclude VAT?

ABU SHUSHEH obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID . For items purchased from external suppliers such as ready concrete mix and curbstone, ABU SHUSHEH pays and refunds VAT on such purchases since ABU SHUSHEH is a commercial entity. Therefore, item cost excluded VAT.

### Actual quantities

No separate records were maintained for the USAID Project. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

### ABU SHUSHEH's Comments

We submitted to ABU SHUSHEH their respective schedule and the related notes and findings. Mr. Meena Khayyat, the financial manager of ABU SHUSHEH, provided us with a written response in which he clarified certain matters related to internal policies of ABU SHUSHEH as well as the conditions prevalent at the time of the project. There was no apparent disagreement on the report contents. ABU SHUSHEH's written response is included in its entirety as appendix "D" to our report.

## Schedule B8

### Summary of Application of Agreed-Upon Procedures

#### Tubeileh Arar Joint Venture (TAJV)

Currency: U.S. Dollar

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost**</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity</i>	<i>Variance Due to Quantity*</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01 (a)	Excavation in all materials	6.0	ND	ND	11,000	ND	ND	ND	B8.1
3.01(b)	Sub-base 200 mm thick.	4.2	ND	ND	3,300	ND	ND	ND	B8.1
3.02 (c)	Base course 200 mm thick	4.5	ND	ND	3,300	ND	ND	ND	B8.1
4.03 (b)	50 mm thick bituminous wearing course	7.5	ND	ND	15,000	ND	ND	ND	B8.1
4.04(c)	70 mm thick bituminous binder course	10	ND	ND	15,000	ND	ND	ND	B8.1
5.13	Supply and install precast curbstone	21	ND	ND	4,000	ND	ND	ND	B8.1
				<b>ND</b>			<b>ND</b>	<b>ND</b>	

**ND:** Not Determinable, refer to the attached explanatory notes.

\* There are no records of actual quantities. We requested TAJV to provide us with a copy of CH2M Hill's final report, but TAJV could not find such a report in their files.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza’s Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Tubeileh Arar Joint Venture (TAJV)**  
(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Tubeileh Arar Joint Venture under contract number 294-C-00-03-00218 a task order (task order number 1) with a total estimated price of USD 700,000 to undertake road rehabilitation in Betunia.

Tubeileh Contracting Company and Arar Company for Trade and General Contracting have entered into a joint venture for purposes of performing the subject task order. The accounts of TAJV, which are the accounts of the task order, were maintained by a local accounting office. The accounts were maintained in an orderly manner and did not involve any complications since TAJV received one task order only. The major works under the task order were subcontracted to other contractors. Asphalt works were subcontracted to TARIFI and excavations and base course works were subcontracted to “Sameer Shaltaf for General Contracting”. The main reason for subcontracting these works, as we understood from the general manager of TAJV, was due to the difficulty and unfeasibility of moving their equipment from Nablus and Qalqilia (Northern West Bank) to Ramallah.

**B8.1**

**Contractor’s basis for the proposed unit price**

TAJV’s proposed unit prices were based on their experience in the field of contracting. As we understand from the general manager of TAJV, pricing was done by a committee that consisted of the directors of the two companies (Tubeileh and Arar), and the Project Engineer and other members. The prices were affected by certain variables like time span, quality, cost of financing resulting from USAID guarantee, safety, and others requirements and above all the remoteness of the task order site.

**Documentary evidence reviewed to verify actual costs**

We visited the local accounting office which maintained the accounts of the task order and we were furnished with all available documents. We concluded that, generally, costs were adequately supported by tax invoices which we reviewed together with evidence of payments for the major costs (asphalt and excavations). We also vouched certain other expenses and were satisfied with the documentation.

On the other hand, we did not review the subcontract agreements which were not available to us. It appears that certain subcontracts were verbal.

Our review indicated that TAJV paid the total of USD 198,906 excluding VAT to the subcontractor (Sameer Shaltaf for General Contracting) for excavations, base course, concrete and curbstone works. Also the sum USD 146,330 excluding VAT was paid to TARIFI for asphalt works. Finally the sum of USD 18,168 including VAT was paid to ABU SHUSHEH for small milling and asphalt work. ABU SHUSHEH issued only one tax invoice for the amount of USD 4,000 including VAT. No tax invoice was issued for the remaining amount. We traced these payments to the bank statement and to cheque copies.

Were funds used for intended purposes?

Our review indicated that funds were generally used for purposes of the subject task order. However, TAJV has subcontracted the major works under the task order without abiding with USAID regulations (FAR 52.244-5) which require selecting subcontractors on competitive basis.

Did item cost exclude VAT?

TAJV obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For payments made to subcontractors, TAJV paid and refunded VAT since TAJV is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

*Excavations, base course, curbstone...etc.*

The subcontractor (Sameer Shaltaf for General Contracting) issued lump sum invoices that did not reflect quantities. The description of each invoice was "payment on account - excavation, base course...etc." without mentioning quantities or unit price. Therefore, we were unable to verify actual quantities from TAJV records.

*Asphalt works*

The subcontractor (TARIFI) issued tax invoices that reflected quantities and unit prices. Our review indicated that 3,932.43 tons of hot asphalt mix were purchased from TARIFI. We understood that those invoices covered spreading the asphalt as well.

The 3,932.43 tons of hot asphalt mix yield approximately 27,500 m<sup>2</sup> according to an average conversion unit obtained from different contractors.

No actual quantities were available for the small works performed by ABU SHUSHEH.

### TAJV's Comments

We submitted to TAJV their respective schedule and the related notes and findings. Mr. Sameeh Tubeileh, the general manager of TAJV, provided us with a written response in which he clarified certain matters related to internal policies of TAJV. Mr. Tubeileh justified selection of subcontractors on basis other than open competition to resource availability is the market and to limited geographical reach at that time. There was no apparent disagreement on the report contents. TAJV's written response is included in its entirety as appendix "E" to our report.

## Schedule B9

### Summary of Application of Agreed-Upon Procedures

#### Al-Tarifi Group Co. (TARIFI)

Currency: U.S. Dollar

<i>Basic Quantity Order Line Item</i>	<i>Description</i>	<i>Proposed Unit Price</i>	<i>Actual Cost</i>	<i>Variance Due to Price</i>	<i>Estimated Quantity</i>	<i>Actual Quantity*</i>	<i>Variance Due to Quantity</i>	<i>Total Price Variance</i>	<i>Note</i>
2.01 (a)	Excavation in all materials	6.2	ND	ND	1,600	2,272	4,166	ND	B9.1
3.02 (a)	Base course 100 mm thick	3.8	ND	ND	4,600	6,244	6,247	ND	B9.2
4.03 (b)	50 mm thick bituminous wearing course	7.2	ND	ND	19,000	19,454	3,269	ND	B9.3
4.06	Replace damaged areas	10.10	ND	ND	1,250	0	(12,625)	ND	B9.4
4.07	Hot asphalt mix for patching and leveling	50	ND	ND	150	749	29,950	ND	B9.4
4.08 (c)	Asphalt milling 40 mm thick	2.10	ND	ND	8,200	4,530	(7,707)	ND	B9.1
5.09 (e)	10 cm side walk concrete (B-200)	11	8.76	11,852	6,300	5,291	(11,099)	753	B9.5
5.13	Supply and install precast curbstone	18.5	11.66	27,654	5,000	4,043	(17,705)	9,949	B9.6
6.02	Road marking-thermoplasptic paint	20	4.5	6,200	260	400	2,800	9,000	B9.7
				<b>ND</b>			<b>(2,704)</b>	<b>ND</b>	

\* Based on CH2M Hill reports.

**ND:** Not Determinable, refer to the attached explanatory notes.

**Agreed-Upon Procedures on Selected Construction Contractors to Evaluate  
USAID Resources Provided Under West Bank and Gaza’s Emergency Roads  
Rehabilitation Project Phase I**

**Explanatory notes - Al-Tarifi Group Co. (TARIFI)**

(Currency: U.S. Dollar)

**General Note**

USAID/West Bank and Gaza awarded Al Tarifi Group Co. under contract number 294-C-00-03-00211 a task order (task order number 2) with a total estimated price of USD 527,790 to undertake road rehabilitation in Al Bireh.

TARIFI owns an asphalt factory, a stone crusher and all pertinent equipment. Therefore, most of the items and works needed for the subject task order were internally supplied. Further, an affiliated company owns a ready mix concrete factory and supplies TARIFI with the needed concrete. TARIFI does not maintain a costing system, and therefore reliable information about costs of products and activities are not available.

TARIFI maintains all material delivery notes (base course, concrete, hot asphalt mix, curbstone...etc) issued to the USAID project as a whole and there is no separation of records by task order.

**B9.1**

**Contractor’s basis for the proposed unit price**

TARIFI owns all the equipment required for excavation/milling. As a result, TARIFI’s proposed unit price was based on their past experience and their knowledge of market prices for similar equipment necessary to perform similar work and adds certain margins for overhead and profit.

**Documentary evidence reviewed to verify actual costs**

In the absence of a costing system as mentioned above, and since no payments were made to outsiders, there was no documentary evidence to review.

**Were funds used for intended purposes?**

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

Actual quantities

There is no record of the quantities covering excavation/milling works. The only available source of information is CH2M Hill's Progress Payment Reports. Each Progress Payment Report is ratified by TARIFI and CH2M Hill's engineers. We understand that TARIFI's project engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports

**B9.2**

Contractor's basis for the proposed unit price

As mentioned above, TARIFI owns a stone crusher and uses it to supply all its projects with base course. TARIFI's proposed unit price of the base course was based on the prices at which TARIFI sells to third parties. TARIFI added certain margins for overhead and profit to the customary selling prices to reach the proposed unit price.

Documentary evidence reviewed to verify actual costs

Since no payments were made to outsiders, there was no directly related documentary evidence to review. However, we reviewed samples of base course sale invoices to third parties and found that TARIFI used the same prices as basis for the price proposed to USAID and added margins for overhead and profit.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

### Actual quantities

Since TARIFI maintains records for the base course issued to the USAID project as a whole and not for each task order individually, we were unable to verify the actual quantities issued to the task order under review. In addition, we could not utilize the timing of each task order to split the quantities since more than one task order were running simultaneously. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

### **B9.3**

#### Contractor's basis for the proposed unit price

As mentioned above, TARIFI owns an asphalt factory and uses it to supply all its projects with hot asphalt mix. TARIFI's proposed unit price of the thick bituminous wearing course was based on the prices at which TARIFI sells to third parties. TARIFI added certain margins for overhead and profit to the customary selling prices to reach the proposed unit price.

The only material that TARIFI purchased from external suppliers is the liquid bitumen (M-10).

For asphalt works, and since TARIFI used its own equipment, proposed unit price was based on their past experience and their knowledge of market prices of similar equipment necessary to do similar work.

#### Documentary evidence reviewed to verify actual costs

Since only the liquid bitumen was purchased from external suppliers, our review of supporting documents was limited to the liquid bitumen invoices. The liquid bitumen is supplied by the Palestinian General Petroleum Authority at standard prices to all contractors. We reviewed samples of liquid bitumen invoices.

#### Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as liquid bitumen, TARIFI pays and refunds VAT on such purchases since TARIFI is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since TARIFI maintains records of asphalt issued to the USAID project as a whole and not for each task order individually, we were not able to verify the actual quantities issued to the task order under review. In addition, we could not utilize the timing of each task order to split the quantities since more than one task order were running simultaneously. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports

**B9.4**

Contractor's basis for the proposed unit price

As mentioned above, TARIFI owns an asphalt factory, a stone crusher and equipment which it uses to supply all its projects with base course, hot asphalt mix and machine work. TARIFI's proposed unit price of the "Asphalt patching and leveling course" was based on the prices at which TARIFI sells to third parties. TARIFI added certain margins for overhead and profit to the customary selling prices to reach the proposed unit price.

Documentary evidence reviewed to verify actual costs

Since only the liquid bitumen and prime tack coat were purchased from external suppliers, our review of supporting documents was limited to the related invoices. These materials are supplied by the Palestinian General Petroleum Authority at standard prices to all contractors.

For labor costs, TARIFI utilized its own employees to do the work. There are no records of employees' time spent on each project.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as liquid bitumen and prime tack coat, TARIFI pays and refunds VAT on such purchases since TARIFI is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since TARIFI maintained records of asphalt and base course issued to the USAID project as a whole and not for each task order individually, we were not able to verify the actual quantities issued to the task order under review. In addition, we could not utilize the timing of each task order to split the quantities since more than one task order were running simultaneously. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B9.5**

Contractor's basis for the proposed unit price

TARIFI purchases the ready mix concrete from an affiliated company (TARIFI Ready Mix Concrete Co) at prices used by the latter to sell to third parties. Other needed materials are supplied by external suppliers. The actual cost for this item shown in the above table represents the direct cost paid to the external supplier and the affiliated company for the material needed, and it does not include other costs such as internal labor which is not determinable. The proposed item price was based on the actual direct cost paid plus overhead and profit margins.

Documentary evidence reviewed to verify actual costs

We reviewed supplier invoices supporting concrete and other materials purchases. Such supporting documents were generally adequate.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as ready concrete mix and the metal grid, TARIFI pays and refunds VAT on such purchases since TARIFI is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since TARIFI maintains records of concrete and other materials issued to the USAID project as a whole and not for each task order individually, we were not able to verify the actual quantities issued to the task order under review. In addition, we could not utilize the timing of each task order to split the quantities since more than one task order were running simultaneously. TARIFI relied on CH2M Hill's progress payment reports which were ratified by TARIFI and CH2M Hill's engineers. We understand that TARIFI's project engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B9.6**

Contractor's basis for the proposed unit price

TARIFI purchased the precast curbstone from external suppliers. Concrete necessary to install the curbstone was purchased from the affiliated company (TARIFI Ready Mix Concrete Co.), and labor was hired for installation and painting works. Other needed works such as excavation and cleaning were performed internally. The proposed item price was based primarily on prices paid for direct materials (curbstone and concrete) plus overhead and profit margins.

Documentary evidence reviewed to verify actual costs

We reviewed curbstone and concrete settled invoices which were generally adequate. We also reviewed documents supporting the payments for curbstone installation and painting.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. For items purchased from external suppliers such as ready concrete mix and curbstone, TARIFI pays and refunds VAT on such purchases since TARIFI is a commercial entity. Therefore, item cost excluded VAT.

Actual quantities

Since TARIFI maintains records of concrete and other materials issued to the USAID project as a whole and not for each task order individually, we were not able to verify the actual quantities issued to the task order under review. In addition, we could not utilize the timing of each task order to split the quantities since more than one task order were running simultaneously. TARIFI relied on CH2M Hill's progress payment reports which were ratified by TARIFI and CH2M Hill's engineer. We understand that TARIFI's project engineer usually accompanies CH2M Hill's engineer when measurements are taken. For purposes of completing the schedules, we used the actual quantities shown in CH2M Hill progress reports.

**B9.7**

Contractor's basis for the proposed unit price

TARIFI employed external suppliers for the road markings. The proposed item price was based primarily on prices paid for such a service plus overhead and profit margins.

Documentary evidence reviewed to verify actual costs

We reviewed invoices, correspondence and other documentation supporting payments made to the supplier of the road marking.

Were funds used for intended purposes?

Our work did not reveal any indications that funds were not used for intended purposes.

Did item cost exclude VAT?

TARIFI obtained VAT exemption from the Palestinian Authority and issued zero VAT invoices to USAID. Therefore, item cost excluded VAT.

Actual quantities

TARIFI records and CH2M Hill reports were in agreement on this item.

TARIFI's Comments

We submitted to TARIFI their respective schedule and the related notes and findings. TARIFI sent us an email in which they documented their acceptance of our report. A copy of TARIFI's response is attached as appendix "F" to our report.

19-JUN-2005 SUN 13:45

Appendix A



**SAQQA & KHOUDARY CONTRACTING Ltd.**

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Date: 19.06.2005

Messrs Wafa  
Attention Mr. Hani

Dear Sir,

Please find attached our remarks on your done reports regarding the USAID rewarded projects to SAK JV and SAK Co.

Regards,

Mr. Tareq Abdel Raheem (*Financial Manager*)

Saqqa & Khoudary Contracting Co.  
Phone: 00972 8 2454420  
Fax: 00972 8 2454410

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Telephone No.: 00972 8 2454420 - Fax No.: 00972 8 2454410

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SAQQA AND KHOUDARY

19/06/05 13:28 FAX +970 8 2454410

SKJV

**B1.1.1 Contract No. (208):**

- **Contractor's basis for the proposed unit price:**  
SAK JV has subcontracted the bituminous works under these items to a local Contracting Co. called "Al-Za'atig" Co. (the sub-contractor) SKJV proposed unit prices were based on analysis break down.
- **Did items cost exclude VAT?**  
The agreements between SAK JV and the Sub-contractors were VAT exclude. Add to that the sub-contractor can not issue a Zero VAT regarding to the Palestinian Tax Regulations. Also the VAT refund takes more than a year to be refunded to the contractor it effects the cash functioning of the company negatively.
- **Were funds used for intended purpose:**  
The Sub-contract is including a wording that all tasks and quantities of SAK JV towards USAID are transferred to the Sub-contractor.

SKJV

**Contract No. (209):**

- **Did items cost exclude VAT?**  
The agreements between SAK JV and the Sub-contractors were VAT exclude. Add to that the sub-contractor can not issue a Zero VAT regarding to the Palestinian Tax Regulations. Also the VAT refund takes more than a year to be refunded to the contractor it effects the cash functioning of the company negatively.
- **Were funds used for intended purpose:**  
The Sub-contract is including a wording that all tasks and quantities of SAK JV towards USAID are transferred to the Sub-contractor.

SKLTD

**Contract No. (213):**

• **Actual Quantities:**  
For base course SKLTD records indicated that 7423 Tons of base course were purchased this quantities gives approximately 16702 m<sup>2</sup>.

- 1 Ton of base course → 1.9 m<sup>2</sup>.
- 1 m<sup>3</sup> base course → 2.2 Ton before compaction.
- 1 m<sup>3</sup> base course → 2.64 Ton after compaction

Loss of Volume 20%

Therefore 1 ton of base course = 1.9m<sup>2</sup>.

7423 Tons → 14059 m<sup>2</sup>.

Accordingly, SAK imported 25% excessive quantity of required for carriage way.

The 25% was used beneath curbstone, improvement of the sub-base, which is a mix of kurkar (granular fill) and base course, improvement of the side walks sub-layers.



**Arab Contractors - Palestine**  
OSMAN AHMED OSMAN & Co. - EL FARRA

## المقاولون العرب - فلسطين

شركة مساهمة مصرية مملوكة

عثمان احمد عثمان وشركاه - الفراء

رقم القيد : 420/1/TA/844/2005  
التاريخ : 22.6.2005

السادة / شركة الوفا للمحاسبة والاستشارات القانونية

تعية طيبة وبعد،،

**الموضوع / : مذكرة رد على الملاحظات الواردة بتقرير شركة الوفا عن التعاقد مع USAID رقم 294-C-00-03-00215 أمر شغل رقم (1) بالمشروع العاجل لإصلاح الطرق بالضفة الغربية وقطاع غزة.**

من اسم المشروع يتضح أنه يجب أن تتم الأعمال في فترة قصيرة جدا ووقت مضغوط جدا متجاوزة بذلك الروتين والبيروقراطية في اتخاذ القرارات.

قامت الشركة باتخاذ الإجراءات التي يجب أن تتخذها الشركات في تنفيذ مثل هذه الأعمال بأن أرسلت للشركات المتخصصة للحصول على عروض أسعار وقد استجابت بعض الشركات وأخرى لم تستجب وبعض الشركات قامت بتسعير بعض البنود دون سواها (مرفق طيه العروض: (1) عرض شركة المحيط للمقاولات والاستثمار، (2) عرض شركة brothers، (3) عرض شركة Rolider 2002 LTD).

علما بأن شركات كثيرة في الضفة الغربية يمكن أن تقوم بإعطاء أسعار متدنية ولكن دون الالتزام بالالتزام، لذا كان لزاما على شركتنا أن نتخذ القرار السليم في إسناد الأعمال لشركات تتمتع بسمعة طيبة ولها سابق تعامل مع الشركة ومن خلال المنافسة مع الممارسة للحصول على أفضل الأسعار لأفضل المواصفات المطلوبة حفاظا على سمعة الشركة.

بخصوص VAT فإن للشركة تجربة سابقة مع وزارة المالية في استرجاع قيمة VAT حيث أن استرجاع القيمة من خلال وزارة المالية هو أمر في منتهى الصعوبة حيث أن شركتنا تتحمل عدم استرجاع الضريبة في جميع الأحوال. لذا فإن شركتنا تفضل التعامل بالمشروعات الشاملة للضريبة حيث أن الشفافية في التعامل مع وزارة المالية من خلال تقديم الفاتورة شاملة الضريبة المضافة عند تقديم المستخلصات.

### EGYPT:

Address: 34 Adly St., Cairo, Egypt  
Cable : OSMAN  
Telephone: 3935455 - 3935223  
Telex: 82239 OSMAN UN CAIRO  
92387 OSMAN UN CAIRO  
Telefax: 3937674 - 3925728  
http://www.arahcont.com

### مصر:

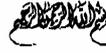
العنوان: ٣٤ شارع عدلي بالقاهرة - مصر  
الهاتف: ٣٩٣٥٤٥٥ - ٣٩٣٥٢٢٣  
تيلكس: ٨٢٢٣٩ - ٩٢٣٨٧  
فكس: ٣٩٣٧٦٧٤ - ٣٩٢٥٧٢٨  
البريد الإلكتروني: arahcont@pailnet.com

### PALESTINE:

Address: Gaza-Northern Remal-01 Nuser  
Yousef El Azmah St.  
Building No. 116 / 410  
Telefax: 2924985 - 2925415  
arahcont@pailnet.com

### فلسطين:

العنوان: غزة - شمال الشمال - النص  
شارع يوسف العظمى  
بناية رقم 116 / 410  
الهاتف: ٢٩٢٤٩٨٥ - ٢٩٢٥٤١٥  
البريد الإلكتروني: arahcont@pailnet.com



## المقاولون العرب - فلسطين

شركة مساهمة مسجلة بمصر

عثمان احمد عثمان وشركاه - الفراء

Arab Contractors - Palestine  
OSMAN AHMED OSMAN & Co. - EL FARRA

رقم القيد : File No. ....

التاريخ : Date .....

كما ونود التأكيد على أن السيد " محمود كرجا " هو ممثل إداري للشركة في هذا المشروع وليس وكيل عام عن أعمال المشروع وبالتالي لم يكن من صلاحياته اتخاذ أي قرار بخصوص أعمال المشروع أو التعاقدات والتي كانت تتم من خلال إدارة الشركة بغزة وقد تم الموافقة من قبلنا على

تمثيله للشركة نتيجة لعدم قدرتنا على الحصول على تصاريح لدخول الضفة بالإضافة إلى محاولة ال USAID لذلك دون جدوى، لذا كان لزاما تعيين ممثل إداري للشركة لإنهاء الأعمال نظرا لظروف المشروع واحتياجاته كما أشرنا في البداية.

بخلاف أن تنفيذ المشروع تم من خلال تعيين طواقم كاملة من مهندسين ومشرفين طبقا لاشتراطات USAID وإدارة المشروع كانت تتم من خلال طاقم المشروع بالتنسيق مع إدارة الشركة بغزة. بخلاف أنه تم تعيين استشاري للمشروع من قبلنا هو الدكتور سمير أبو عيشة " أستاذ بجامعة النجاح لإعطاء الدعم الفني للطاقم المشروع وكان على اتصال دائم باستشاري المشروع وقام بحضور العديد من الاجتماعات.

فيما يخص دفعات المقاولين فإن البلود الرئيسية كانت تتم من خلال مقاولين متخصصين كشركة المحيط وكان الصرف للمقاول يتم من خلال مستخلصات والتي تم تسليم صورته منها لسيادتكم، أما بخصوص البنود الصغيرة والأعمال المتفرقة فكانت تتم المحاسبة عليها مباشرة من خلال ممثلنا الإداري السيد " محمود كرجه ". وطبقا للأسعار المتعارف عليها بالسوق.

وتفضلوا بقبول الاحترام والتقدير

المدير العام  
مهندس /  
أحمد السخاوي

### EGYPT:

Address: 34 Adly St., Cairo, Egypt  
Cable: OSMASON  
Telephone: 3935455 - 3935223  
Telex: 32238 OSMAN UN CAIRO  
92387 OSMAN UN CAIRO  
Telefax: 3937874 - 3925728  
http://www.arabcont.com

### مصر:

العنوان: ٣٤ شارع عدلي بالقاهرة - مصر  
كابل الشركة: أوسمان  
تليفون: ٣٩٣٥٤٥٥ - ٣٩٣٥٢٢٣  
فاكس: ٣٩٣٧٨٧٤ - ٣٩٢٥٧٢٨  
تيليفاكس: ٣٩٣٧٧٤ - ٣٩٢٥٧٢٨

### PALESTINE:

Address: Oza-Northern Ramal-El Namer  
Yousef El Azmeh St.  
Building No. 110 / 410  
Telephone: 2824985 - 2823415  
arbh-yin@palnet.com

### فلسطين:

العنوان: غزة - الرمال الشمالي - النصر  
شارع يوسف العظمى  
مبنى رقم ١١٠ / ٤١٠  
تليفون: ٢٨٢٤٩٨٥ - ٢٨٢٣٤١٥  
تيليفاكس: ٢٨٢٣٤١٥ - ٢٨٢٤٩٨٥

**Conceptual translation of ARAB CONTRACTORS's comments on our report**

**Messrs: El Wafa & Co.**

**Subject: Our comments on the findings reported by El Wafa & Co. - USAID Emergency Road Rehabilitation Project, Task Order # 1 under Contract No. 294-C-00-03-00215**

**Dear Sirs,**

The nature of the project (emergency project) required the contracting company to perform the work in a short period of time and under extreme pressure which necessitated discarding routine and bureaucracy in making decisions.

ARABCONTRACTORS solicited price offers from other companies. Some of these companies made offers/partial offers and the others did not bid at all. Attached are the price offers from three companies: Ocean, Brothers Company, and Rolider 2002 LTD.

It is worth mentioning that there were many companies in the West Bank who were able to bid at low prices but without delivering the required quality. Accordingly, we found ourselves obliged to deal with reputable subcontractors.

With regard to VAT, ARAB CONTRACTORS had a previous experience with the Ministry of Finance. VAT refund is very difficult. As a result, ARAB CONTRACTORS prefer to deal with VAT inclusive projects.

We also would like to clarify that Mr. "Mahmoud Karaja" was an administrative representative of ARAB CONTRACTORS during the project life and was not a general agent. Decisions regarding the work under the projects were taken by ARAB CONTRACTORS' management in Gaza. ARAB CONTRACTORS appointed him as an administrative representative as a result of not having permissions to access West Bank although we exerted all efforts to do so with the assistance of the USAID.

In addition, ARAB CONTRACTORS has appropriately staffed the project with the needed engineers and supervisors as required by USAID with coordination with the management in Gaza. ARAB CONTRACTORS has also appointed Dr. Samer Abu Eisheh (Lecturer in Al - Najah University) as a consultant to provide technical assistance for the project staff in collaboration with the project's consultant. Dr. Samer Abu Eisheh was in close contact with the project team and attended several meetings.

With respect to payments to subcontractors, which represented the major payments, they were made according to the progress reports submitted by subcontractors. Other smaller payments were processed directly by our administrative representative (Mr. Mahmoud Karaja) using customary prices.

Best regards,

**General Manager  
Engineer Ahmad El Sakhawy**

**Musa Abu Dieh (El Wafa & Co.)**

**From:** Ocean Contracting & Investment co. [omari@palnet.com]  
**Sent:** Tuesday, June 21, 2005 2:41 PM  
**To:** Musa Abu Dieh (EL-Wafa & Co.)  
**Subject:** Re: Agreed Upon Procedures Report-USAID-Ocean Part

السيد رامي بطاط المحترم  
تحية طيبة وبعد

بالنسبة للتقرير الخاص بمشروع USAID فلا يوجد لان أية ملاحظات عليه ونريد ان نوضح لكم ما يلي:  
- اننا نتعامل مع المشروع كوحدة واحدة ولا نتعامل مع كل Task order لوحده.  
- المعدات جميعها ملك الشركة ولا يوجد معدات مستأجرة.  
- الموظفين والعمال الذين يعملون في المشروع هم من موظفين وعمال الشركة الدائمين.  
- المواد المستخدمة من أسفلت وبيسكورس هي من مصنع وكسارة شركة المحيط.

وتفضلو بقبول فائق الإحترام

الإدارة المالية  
نبيل طنينة  
شركة المحيط للمقاولات والإستثمار

**Conceptual translation of OCEAN's comments on our report**

Dear Mr. Battat,

Ocean has no comments on the report. However, we would like to clarify the following:-

- Ocean accounted for the whole USAID project as one unit and did not account for each task order separately.
- All the equipment used in the project are owned, no equipment were leased.
- Ocean utilized its full time personnel to complete the works under the USAID project.
- Materials such as base course and asphalt were supplied to the project from the stone crusher and the asphalt factory owned by OCEAN.

Best regards,  
Finance Department  
Nabeel Tannineh  
OCEAN



ABU SHUSHEH General Contractors Co.  
شركة ابو شوشة للتجهيزات العامة

Date: 21/6/2005

EL WAFA CO  
Certified Public Accountants

Mr. Rami Battat

Greetings,,

Subject: Comments on draft Report .

With ref. to the above subject concerning El Wafa draft report related to the auditing work done by your company for the favour of USAID "Road Rehabilitation In Ramallah City" . I would like to draw your attention for the following points:

- A- Concerning information related to Pricing it is not a matter of being conservative or not, As we inform your good self that pricing is depend and differ from time to time " during the same month special the cost of raw material that we buy from the Israel market which originally depend on International market price and the exchange rate.

Also we have to take in consideration to a major point that we buy those raw materials in Israel Shakle that considered a devaluation currency .

- B- Actual quantities you mentioned in your report there is record of excavation milling ...etc and the only available source of information is /CH2M HILL progress payment report.

This point needs a clarification, those records you mentioned was built on Actual measurements in the site, if its by LM for curbstones, painting of curbstones or by square mater for milling or base course.....ets  
And such a job done by our surveyor and CH2M HILL employees according it is a result of team work agreed on.

- C- Our proposed price depends on 5 major factors

- 1- the cost in crusher.
- 2- The transportation charges.
- 3- The cost of labors and machinery cost.
- 4- Taking in consideration also the fix costs of the company.
- 5- The cost of raw material.

As long as I explained previously point No 5, I would like to draw your attention concerning point No 2. the transportation charges.

AS we explained that also it is a variable one and such a variation could be up to 300%.

Due to the political situation and as long as we do not have permission for our vehicle, to drive directly from the Al Ram village where our crusher location. 5 km distance to Rammallah city.



Ramallah - P.O.Box 320, Tel. 02-2408890/1/2 • Fax: 02-2408041  
للكتب: رام الله - ص.ب ٣٢٠ - هاتف: ٠٢/٢٤٠٨٨٩٠/١/٢ - فاكس: ٠٢/٢٤٠٨٠٤١



Some times we used Betunia "10km" crossing point and some times our driver has to go through Biet-el crossing point "35 km". You can see the difference in cost for transportation for the same location.

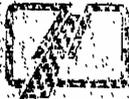
By the end of our comments on your report.  
I would like to express our thanks for your team. And for the job you have done in a very professional way.

Thank you ,,

Meena Khayyat  
Admin. & Financial Manager

ABU SHUSHEH  
General Contractors Co.  
Tel. 2408890 - Fax 2408041

c.c General Manager  
c.c Chief Accountant  
c.c File



**Musa Abu Dieh (EL-Wafa Co.)**

**From:** tub@palnet.com  
**Sent:** Thursday, June 16, 2005 6:55 PM  
**To:** Musa Abu Dieh (EL-Wafa & Co.)  
**Subject:** Re: Agreed Upon Procedures Report-USAID-TAJV Part

Dear Mr. Battat,

With reference to your e-mail replied on in this letter and after reviewing your report, I would like to clarify the following:

1. The filing system in our company follows a certain organizational culture and procedure. We can not keep all the records of the projects we execute; usually we keep certain documents and records of the executed projects according to the degree of importance and the need of these documents in the future. Tubeileh Arar JV had not been told during the project execution period that certain records have to be kept for the use of the USAID in the future.
2. Concerning the actual quantity records, Tubeileh-Arar JV do not have a copy of the final payment for Beitunia Project, which is still with CH2MHILL, and this has been conveyed to you in our meeting in Nablus and you promised to obtain this document from CH2MHILL. However, Tubeileh Arar JV have got the pre-final interim payment no. 4 which we can provide upon your request.
3. Regarding Tubeileh-Arar JV's selection of subcontractors, Tubeileh Arar JV did not have many alternative subcontractors to pick up from. This was due to the limited market resources and to the limited geographical reach of local contractors to work in some territories of the west bank other than their own city. There was a certain procedure for Tubeileh Arar JV for selecting and negotiating with some subcontractors though this has been done verbally and if selecting subcontractors on competitive basis is a benefit for the funder, it is a major concern for the main contractor to increase his profit margin and execute the works on time and within the accepted international standards to avoid un-approved works, rework, any financial penalties and to maintain the Company's good well.
4. Our firm respects and appreciates the procedures set by a reputable organization such as the USAID to perform the works, keeping the records and preparing the paper work, but I do think personally that these procedures are part of our organizational culture and "changing organizational culture" of the local contractors is a painstaking and time-consuming process and I think we have to work altogether hardly on it.

Thank for your cooperation

Best Regards

Sameeh Tubeileh  
General Manager  
Tubeileh Arar JV

Quoting "Musa Abu Dieh (EL-Wafa & Co.)" <musawafa@palnet.com>:

> Dear Sir,  
>  
>  
>  
> Please find attached the part of our draft report pertaining to your  
> company. You are kindly requested to review the attached and provide  
> us with your comments, if any, in writing by noon time of June 19,

& .  
> 2005 to enable us issue our draft report to USAID.  
>  
>  
> Please confirm receipt of this email.  
>  
>  
> Sincerely,  
>  
>  
> Rami Battat  
>  
> El Wafa & Co.  
>  
>  
>  
>  
>

-----  
This Email was Sent by Palnet Communications Webmail Service.  
W W W . P A L N E T . C O M

**Rami Battat**

---

**From:** Tarifi Salam [starifi@yahoo.com]  
**Sent:** Tuesday, June 21, 2005 9:40 AM  
**To:** Rami Battat  
**Subject:** Re: Draft report- USAID-TARIFI part

dear rami ...  
about the report mentioned above we would like to confirm you that we agreed on this  
report that will be sent to the USAID.

---

Yahoo! Sports  
Rekindle the Rivalries. Sign up for Fantasy Football  
<http://football.fantasysports.yahoo.com>