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OFFICE OF INSPECTOR GENERAL

EXAMINATION PROCEDURES RELATED TO
PALESTINIAN EARLY CHILDHOOD EDUCATIONAL
PROGRAMS' COMPLIANCE WITH GRANT TERMS
AND CONDITIONS AWARDED BY ASSOCIATES IN
RURAL DEVELOPMENT INC. UNDER USAID
PRIME CONTRACT NO. 294-C-00-02-00211-00
FOR THE EMERGENCY ASSISTANCE PROGRAM

AUDIT REPORT NO. 6-294-07-012-N
DECEMBER 20, 2006

CAIRO, EGYPT

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Office of Inspector General

Report No. 6-294-07-012-N

December 20, 2006

MEMORANDUM

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

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

SUBJECT: Examination Procedures Related to Palestinian Early Childhood Educational Programs' Compliance With Grant Terms and Conditions Awarded by Associates in Rural Development Inc. Under USAID Prime Contract No. 294-C-00-02-00211-00 for the Emergency Assistance Program for the Period July 15, 2003, to September 5, 2005

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

El Wafa and 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 awarded Contract Number 294-C-00-02-00211-00 to Associates in Rural Development Inc. to implement an \$18.2 million USAID initiative titled "The Emergency Assistance Program in the West Bank and Gaza." The program was designed to address urgent emergency and humanitarian needs of Palestinians through the use of locally-based non-governmental organizations. Associates in Rural Development Inc. sub-awarded a \$228,200 fixed-obligation grant to Palestinian Early Childhood Educational Programs to renovate kindergarten facilities, and provide a variety of playground equipment, educational equipment, and toys. The examination covered total expenditures of \$221,451.

The examination included: (1) expressing an opinion on compliance with sub-grant agreement terms and conditions; (2) obtaining an understanding of the sub-recipient's internal controls; and (3) designing the engagement to provide reasonable assurance of detecting fraud, illegal acts, or violations of the sub-grant agreement provisions. The examination tested the sub-recipient's compliance with AAPD 02-04, implementation of Executive Order 13224 – *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, Or Support Terrorism*.

El Wafa and Company identified the following four material weaknesses or instances of noncompliance with the agreement terms and conditions related to the sub-award:

- Separate financial records were not maintained for the grant received.
- Payments in excess of \$5,000 were paid by the sub-grantee instead of the contractor, Associates in Rural Development.
- Certain expenses were paid using a bank account other than the special bank account identified in the grant agreement.
- The documentation of one major bid was lost.

In addition, the auditors identified one reportable material weakness involving the internal control structure and its operation. The documents supporting certain bids related to the grant were lost. Furthermore, the auditors noted that the provision pertaining to prohibition of terrorist financing required by the Acquisition and Assistance Policy Directive (AAPD) 02-04 was not included in the sub-awards.

El Wafa discussed the findings of the examination with the management of Palestinian Early Childhood Educational Programs. Below is a summary of their responses:

- No segregated records were maintained for the grant since the records are simple manual records.
- Payments greater than \$5,000 were made upon consent by the contractor due to various reasons such as delay in invoice submission by suppliers.
- Violation related to the use of a special bank account is due to delays in money transfers by the contractor.
- The loss of tender document is due to death of the accountant.

The contractor, Associates in Rural Development, provided its written comments on the examination findings primarily related to Acquisition and Assistance Policy Directive (AAPD) 02-04. The contractor recognized that the standard language under Acquisition and Assistance Policy Directive 02-04 was not incorporated in the agreement. However, the contractor stated that the intent of Acquisition and Assistance Policy Directive 02-04 was covered in the anti-terrorism certification signed by the sub-grantee.

Based on our review of the report, we are including three recommendations in USAID's Audit Recommendations Tracking System:

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

Recommendation No. 2: We recommend that the Contracting Officer, USAID/West Bank and Gaza, instruct Associates in Rural Development Inc. to require the sub-recipient's compliance with the sub-award's agreement terms and conditions for maintaining separate financial records, requesting the contractor to make payments over \$5,000, using the agreed upon bank account for payment of certain expenses, and maintaining bid documentation.

Recommendation No. 3: We recommend that the Contracting Officer, USAID/West Bank and Gaza, instruct Associates in Rural Development Inc. to require the sub-recipient to formalize written procedures to protect and maintain important documents.

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

Examination Procedures Related to Palestinian Early Childhood Educational Programs'
Compliance with Grant Terms and Conditions Awarded by Associates in Rural
Development Inc. Under USAID Prime Contract No. 294-C-00-02-00211-00 for the
Emergency Assistance Program

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February 20, 2006

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 results of our examination of Palestinian Early Childhood Educational Programs' compliance with grant terms and conditions awarded by Associates in Rural Development Inc. under USAID prime contract No. 294-C-00-02-00211-00 for the Emergency Assistance Program. Our examination covered the period from July 15, 2003 to September 5, 2005.

Background

Associates in Rural Development (ARD) has entered into a grant agreement dated July 15, 2003 with Palestinian Early Childhood Educational Programs under which ARD made a USD 228,200 Fixed Obligation Grant (FOG) to Palestinian Early Childhood Educational Programs to remove and rebuild seven kindergarten classrooms (enlarging the size), build an additional three new kindergarten classrooms, completely rebuild the sanitary facilities in at least four kindergartens, construct a large hall in one of the kindergartens, build an outdoor shelter in the playground of another location, and provide a variety of playground equipment, educational equipment, and toys to all 13 locations.

The grant agreement stipulated that all goods with a cost over USD 5,000 will be purchased directly by ARD on the grantee's behalf.

Total actual disbursements under the grant amounted to USD 221,451 out of which USD 117,282 (53%) was transferred to Palestinian Early Childhood Educational Programs to cover project expenses. USD 104,169 (47%) was paid directly by ARD to the suppliers for procurements made as part of the grant.

The initial grant completion date was January 26, 2004 but was extended four times until September 5, 2005. The extension was due to, as stated in the four amendments, (a) extensive re-planning to bring the project back in line with original objectives (b) delays in signing contract with suppliers (c) closure of borders which caused material shortage in the market (d) the need to obtain a waiver to purchase furniture for the kindergartens (e) incursions by the Israeli and (f) additional time required to manufacture and distribute furniture to kindergartens.

Examination Objectives and Scope

The objective of this examination engagement is to express an opinion as to whether Palestinian Early Childhood Educational Programs complied with terms and conditions of the grant agreement funded by USAID under Associates in Rural Development Inc., Contract No. 294-C-00-02-00211-00 for the period from July 15, 2003 to September 5, 2005.

The examination engagement is performed in accordance with U.S. Government Auditing Standards applicable to attestation engagements and the AICPA Statements on Standards for Attestation Engagements (SSAE).

The Specific Objectives

1. Perform sufficient testing to express an opinion on whether Palestinian Early Childhood Educational Programs complied in all material respects with the grant agreement terms and conditions.
2. Obtain sufficient understanding of internal control that is material to the subject matter or assertion to plan the engagement and design procedures to achieve the objectives of the attestation engagement.
3. Design the engagement to provide reasonable assurance of detecting fraud, illegal acts, or violations of provisions of the grant agreement that could have a material effect on the subject matter or assertion of the attestation engagement, and be alert to situations or transactions that could be indicative of abuse.
4. Consider the results of previous audits and attestation engagements and follow up on known significant findings and recommendations that directly relate to the subject matter or the assertion of the attestation engagement being undertaken.

Procedures Performed

Examination planning and preliminary procedures began immediately after the entrance conference held on September 13, 2005 and were immediately followed by the final examination field work which was completed on February 20, 2006. Our examination tests included, but were not limited to, the following:

1. Review of the agreement signed between ARD and Palestinian Early Childhood Educational Programs and all related appendices and amendments.
2. Review of the grant agreement's files maintained by ARD to ensure organization and completeness.

3. Comprehensive and detailed documentary review of a sample of the tendering procedures related to the procurement of the outdoor games, furniture for kindergartens, concrete and construction materials, and ceramic & tiles. This included review of minutes of meetings of the tendering committee, detailed review of bids submitted by the participating suppliers and review of the award decision.
4. Discussing the tendering process with ARD's Grants System Manager and the director of Palestinian Early Childhood Educational Programs and other personnel.
5. Discussing the results of previous audits and attestation engagements with ARD's Grants System Manager and the management of Palestinian Early Childhood Educational Programs.
6. Review of a sample of the contracts between Palestinian Early Childhood Educational Programs and suppliers.
7. Examination of payments made by ARD to the suppliers to ensure that such payments were duly approved, supported with sufficient competent documents and made solely for purposes of the grant.
8. Examination of the disbursements made directly by Palestinian Early Childhood Educational Programs to ensure that such payments were duly approved, supported with sufficient competent documents and made solely for purposes of the grant.
9. Review of evidence of receipt of outdoor games, furniture...etc. by beneficiaries.
10. Review of the bank statement of the project's special bank account maintained by Palestinian Early Childhood Educational Programs for the grant to ensure that the bank account was exclusively used for purposes of the project.
11. Obtained and reviewed a sample of cancelled cheques from the records of the bank directly to ensure whether such cheques were cashed by the intended beneficiaries.
12. Review of payments to workers for excavations and refill works, construction works, electrical and tiling and painting workers...etc to ensure that such payments were made to eligible beneficiaries and according to the budget.
13. Review of payroll documentation (contracts, payment vouchers...etc) to ensure that payroll was paid to eligible beneficiaries and according to the budget.
14. Conducted a field visit to a sample of rehabilitated kindergartens under the project to verify that such items exist and are being used for intended purposes.

Except as described in the following paragraph, we conducted our examination in accordance with attestation standards established by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about Palestinian Early Childhood Educational Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We were not subjected to an external quality control review by an unaffiliated audit organization, as required by chapter 3 paragraph 3.52 of the U.S. Government Auditing Standards, since no such program is offered by professional organizations in Palestine. We believe that the effects of this departure from U.S. Government Auditing Standards are not material since we participate in the NEXIA International worldwide quality control review program which requires our office to be subject, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

Results of the Examination

Compliance with award terms

Our examination identified the following material non-compliance issues that should be reported to USAID.

- Palestinian Early Childhood Educational Programs did not maintain separate financial records for the grant received from ARD.
- Payments in excess of USD 5,000 were paid by Palestinian Early Childhood Educational Programs although the grant agreement requires that such payments be made by ARD.
- Palestinian Early Childhood Educational Programs used a bank account other than the special bank account identified in the grant agreement to pay certain expenses.
- The documentation of one major bid was lost.

More details about the above issues are included in the independent auditors' report and the "summary of work done and conclusions" section at the end of this report.

In addition to the above material non-compliance issues, our work identified other issues as reported in point number 11 in the "summary of work done and conclusions" section at the end of this report.

Compliance with anti-terrorism regulations

Our examination identified that AAPD 02-04, implementation of Executive Order 13224 was not complied with. For more details, refer to point number 11 in the "summary of work done and conclusions" section at the end of this report. We did not find Palestinian Early Childhood Educational Programs responsible for this non-compliance as it was the responsibility of the grantor to incorporate the mandatory anti-terrorism wording in the agreement.

Internal Control

We noted that the documents supporting certain bids related to the grant were lost. This matter is considered a reportable material weakness involving the internal control structure and its operation.

In addition to the above material internal control issue, we noted certain other matters concerning internal control that we reported in point number 1 in the "summary of work done and conclusions" section at the end of this report.

Follow-Up on Prior Audit Recommendations

According to ARD, no audits or attestations have ever been conducted in respect of the grant in particular.

For Palestinian Early Childhood Educational Programs, no audit or attestation had ever been conducted in respect of ARD's grant in particular. For more details, refer to point number 12 in the "summary of work done and conclusions" section at the end of this report.

Management Comments

We discussed the findings of the examination with the management of Palestinian Early Childhood Educational Programs. Their major responses follow:

- No segregated records were maintained for the grant since Palestinian Early Childhood Educational Programs' records are simple manual records.
- Payments greater than USD 5,000 were made by Palestinian Early Childhood Educational Programs upon consent by ARD due to various reasons such as delay in invoice submission by suppliers.
- Violation related to special bank account is due to delays in money transfer by ARD which enforced Palestinian Early Childhood Educational Programs to use other sources.
- The loss of tender document is due to death of accountant.
- For other findings and corresponding recommendations, Palestinian Early Childhood Educational Programs reported their concurrence with our recommendations and will put recommendations into operation.

ARD has provided its written comments on the examination findings. The comments were mainly directed towards AAPD 02-04. ARD recognized that the standard language under AAPD 02-04 was not incorporated in the agreement. However, ARD mentioned that the intent of AAPD 02-04 was covered in the anti-terrorism certification signed by the grantee. ARD's response is incorporated in its entirety as Appendix "A" to this report.

El Wafa & Co.



Musa Abu Dieh

Ramallah, Palestine
February 20, 2006

El Wafa & Co.

Accountants & Consultants
A Member of
NEXIA INTERNATIONAL



الوفاء وشركاهم

محاسبون قانونيون واستشاريون
عضو في
نكسيا العالمية

Independent Auditors' Report

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 examined Palestinian Early Childhood Educational Programs' compliance with grant terms and conditions awarded by Associates in Rural Development Inc. under USAID prime contract No. 294-C-00-02-00211-00 for the Emergency Assistance Program during the period from July 15, 2003 to September 5, 2005. Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on Palestinian Early Childhood Educational Programs' compliance based on our examination.

Except as discussed in the following paragraph, our examination was conducted in accordance with attestation standards established by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about Palestinian Early Childhood Educational Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Palestinian Early Childhood Educational Programs' compliance with specified requirements.

We were not subjected to an external quality control review by an unaffiliated audit organization, as required by chapter 3 paragraph 3.52 of the U.S. Government Auditing Standards, since no such program is offered by professional organizations in Palestine. We believe that the effects of this departure from U.S. Government Auditing Standards are not material since we participate in the NEXIA International worldwide quality control review program which requires our office to be subject, every three years, to an extensive quality control review by partners and managers from other affiliate offices.

1. Segregated financial records

Condition

We noted that Palestinian Early Childhood Educational Programs did not maintain separate records for the grant received from ARD.

Criteria

Article number 33 of the grant agreement stipulated that the grantee agrees to record, classify and report all ARD financed costs in separate and segregated grant specific financial accounts.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs maintain segregated financial records for USAID awards so that all related transactions and balances are identifiable and verifiable.

2. Payments in excess of USD 5,000

Condition

We noted that Palestinian Early Childhood Educational Programs made payments in excess USD 5,000. For example, USD 5,775 was paid for ready mix; USD 8,899 was paid for building materials and USD 7,200 for engineering fees.

Criteria

Article number 28 of the grant agreement stipulated that all goods with a cost of over USD 5,000 will be purchased directly by ARD on the grantee's behalf.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs abide with the terms of the grant agreement especially those related to payment thresholds.

3. Special bank account

Condition

We noted that Palestinian Early Childhood Educational Programs made certain payments (salaries and insurance) from a bank account other than the special bank account identified in the grant agreement. Palestinian Early Childhood Educational Programs has then reimbursed the general bank account with the amounts paid.

Criteria

Article number 30 of the grant agreement identified the bank account to be used for the grant.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs make all bank transactions related to USAID awards from the special bank account opened for this purpose.

4. Tender documentation

Condition

We noted that the documents of certain tenders were lost. For example the documents related to the procurement of ready concrete mix and building materials in the amount of USD 48,046 were not available at Palestinian Early Childhood Educational Programs although all originals should have been maintained by them.

Criteria

Article number 33 of the grant agreement and common financial practices require proper maintenance of financial and tender documents.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs formalize written procedures for document protection and maintenance to avoid losing documents in future.

In our opinion, except for the effect of findings 1 to 4 reported in the preceding paragraphs, Palestinian Early Childhood Educational Programs complied in all material respects with the aforementioned requirements for the period from July 15, 2003 to September 5, 2005.

This report is intended for the information of Palestinian Early Childhood Educational Programs and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

El Wafa & Co.



Musa Abu Dieh

Ramallah, Palestine
February 20, 2006

Examination Procedures Related to Palestinian Early Childhood Educational Programs' Compliance with Grant Terms and Conditions Awarded by Associates in Rural Development Inc. Under USAID Prime Contract No. 294-C-00-02-00211-00 for the Emergency Assistance Program

Summary of Work Done and Conclusions

1. Internal Control

We reviewed the internal control of Palestinian Early Childhood Educational Programs. Our review of the internal control was in the form of (a) internal control questionnaire and (b) examination of controls while testing payments and procedures. Our review of the internal control of Palestinian Early Childhood Educational Programs identified the following:

Material weaknesses

We noted one material weakness that we reported in the independent auditors' report (loss of bid documents).

Other issues

In addition to the above material internal control issue, we noted the following other matters concerning internal control:

a. Bank reconciliations:

Condition

As part of our review of the internal control of Palestinian Early Childhood Educational Programs, we enquired management about bank reconciliations and noted that bank reconciliations were not approved by management.

Criteria

Bank reconciliations should be prepared on a timely manner depending on the volume of transactions and should be reviewed and approved by the responsible officials of management.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs prepare and approve bank reconciliations as described in the above criteria.

b. Cheque payments:

Condition

As part of our review of the internal control of Palestinian Early Childhood Educational Programs, we enquired management to find out whether they stamp issued cheques "To The First Beneficiary Only" and were informed that such procedure was not followed.

Criteria

To avoid problems resulting from unauthorized or illegal endorsement, cheques shall be issued to the first beneficiary only.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs stamp issued cheques "To The First Beneficiary Only" in future. This policy shall be consistently applied with exceptions allowed in cases of payment to old people, handicapped or to beneficiaries in remote areas where bank accessibility is difficult.

c. Voiding paid invoices

Condition

As part of our review of the internal control of Palestinian Early Childhood Educational Programs, we enquired management to find out whether they stamp paid invoices and related documents as "PAID" and were informed that such procedure was not followed.

Criteria

Paid invoices shall be stamped "PAID".

Recommendation

We recommend that all invoices and other supporting documents be stamped "PAID" upon payment to avoid duplication of payment or misuse of invoices and supporting documents.

d. Payroll tax

Condition

As part of our review of the internal control of Palestinian Early Childhood Educational Programs, we enquired management to find out whether payroll tax is deducted and settled according to prevailing laws; we noted that such tax is not deducted from the salaries of employees charged to the grant in the amount of USD 10,150.

Criteria

Payroll income tax should be deducted at source and settled to the income tax department in accordance with prevailing income tax law.

Effect

Violation of prevailing laws.

Recommendation

We recommend that payroll tax be deducted and settled according to income tax law.

e. Payment vouchers

Condition

As part of our overall review of internal controls, we noted that payment vouchers used by Palestinian Early Childhood Educational Programs are not serially pre-numbered. Such vouchers are given serial numbers manually.

Criteria

Financial best practices and internal control require payment vouchers be serially pre-numbered.

Recommendation

We recommend using serially pre-numbered vouchers to avoid intentional or unintentional mistakes in these vouchers.

f. Transportation

Condition

The grant's budget included an allowance for transportation in the amount of USD 1,680. We tested approximately USD 1,300 (3 payments) and noted that Palestinian Early Childhood Educational Programs paid such transportation to certain employees without having transportation sheets supporting such payments.

Criteria

Transportation charges must be supported with detailed transportation sheets showing destinations and amounts. Such sheets must also be approved by the designated level of management.

Recommendation

We recommend that all transportation be paid against detailed transportation sheets showing destinations and amounts. Also, the responsible official of management must review and authorize payment of transportation.

g. Time sheets & attendance records

Condition

Salaries paid under the project amounted to USD 10,150. This amount was paid to project manager; accountant and engineers who were part-time employees. We noted that the project manager, accountant and engineers did not prepare time sheets to support the amounts received under the project.

We also noted, as part of our review of the general control environment, that certain employees of Palestinian Early Childhood Educational Programs did not sign the attendance records.

Criteria

Payroll charges to USAID originating funds must be supported with time sheets/detailed activity reports.

In addition, and as an internal control procedure, employees shall sign on daily attendance records to show time of attendance and departure as well as the number of work hours.

Recommendation

We recommend the following:

- Preparation of detailed time sheets/activity reports by all employees receiving salaries under USAID awards. Such time sheets/activity reports must be reviewed and approved by the designated level of management.
- Attendance records shall be properly completed by all employees and shall be reviewed and approved by the designated level of management.

2. Accounting and Financial Records

The grant agreement required Palestinian Early Childhood Educational Programs to record, classify and report all ARD financed costs in separate and segregated specific financial accounts. Palestinian Early Childhood Educational Programs maintained manual accounting records for its overall activities. The manual accounting records represent the common manual book. No separate records were maintained for the grant received from ARD.

We also noted that the amounts paid directly by ARD were not booked by Palestinian Early Childhood Educational Programs.

3. Separate Bank Account

Palestinian Early Childhood Educational Programs maintained a separate bank account for the amounts received from ARD as stipulated in the grant agreement. We reviewed the bank statement covering the life of the grant and found that the bank account was used exclusively for purposes of the grant. However, we noted that Palestinian Early Childhood Educational Programs made certain payments (salaries and insurance) from a bank account other than the special bank account identified in the grant agreement. Palestinian Early Childhood Educational Programs has then reimbursed the general bank account with the amounts paid.

In addition, we directly obtained from the bank a sample of cancelled cheques to ensure that such cheques were cashed by the intended beneficiaries. We noted no unauthorized endorsement of cheques.

4. Procurement Procedures

We have reviewed procedures, documents and minutes related to a sample of procurements made under the grant.

From our review, we report below the major controls and weaknesses noted in the procurement procedures:

Controls:

- a) For major procurements, ARD and Palestinian Early Childhood Educational Programs solicited bids through open tenders that were announced in the local news papers.
- b) Bids were received in sealed envelopes.
- c) Bids were opened and evaluated by a committee.
- d) Palestinian Early Childhood Educational Programs maintained minutes of committee's meetings (although some were missing as noted in the weaknesses below).
- e) ARD participated in the bid opening and evaluation.
- f) All payments exceeding USD 5,000 were paid directly by ARD (except for certain cases which are reported in the independent auditors' report as non-compliance issue).

Weaknesses:

- a) *Outdoor games bid*

Condition

We noted inconsistency and contradictions in the documentation and award decision related to this bid. In this regard, the award was made to one of the bidding suppliers who offered the lowest price and, according to the minutes of the bid, was an experienced and reputable supplier. Later on, Palestinian Early Childhood Educational Programs changed its decision and re-awarded the contract to another supplier with a USD 3,630 higher price. The reason for such change, according to Palestinian Early Childhood Educational Programs' records, is a delay by the first supplier in submitting a bank guarantee for the bid.

Criteria

Awards shall be made to the supplier who is economic advantageous and with sufficient qualifications.

Effect

Higher cost on the project.

Recommendation

We recommend awarding contracts to the economic advantageous and qualified contractors. In case of small discrepancies noted in the offer of the winning contractor, management shall ask the contractor to complete requirements, without violation of the procurement regulations, instead of awarding the contract to another supplier who is higher in price and probably less experienced.

b) Bidding documents

Condition

We noted that Palestinian Early Childhood Educational Programs did not properly organize and maintain the documents of certain bids such as the bids for procuring sanitary materials (USD 5,567) and ceramic (USD 6,500).

Criteria

As an internal control over procurements, all documents related to procurement must be properly filed and safeguarded.

Recommendation

We recommend that Palestinian Early Childhood Educational Programs formalize written procedures for document management whereby all documents are organized in safe place for easy reference and inspection.

c) Receiving reports

Condition

As part of our review of the general control environment, we enquired management whether they prepare receiving reports upon receipt of procurements. The management of Palestinian Early Childhood Educational Programs informed us that they do not prepare receiving reports.

Criteria

As an internal control over procurements, receiving reports shall be prepared to document the receipt of procured materials. Such reports shall be duly signed and shall be kept in the procurement files.

Recommendation

We recommend preparation of receiving reports for the received items. This report shall be signed by the preparer and shall be reviewed and approved by management. In addition, the accountant shall reconcile the receiving report with the invoice and other documents prior to making payments to suppliers.

d) Award decisions (procurement)

Condition

We noted that not all members of the bid evaluation committee signed the award decision. We noted this matter in the following bids:

- Outdoor games (USD 11,060): no signatures of ARD's representative and the accountant of Palestinian Early Childhood Educational Programs.
- Ceramic (USD 6,500) and sanitary materials (USD 5,567): no signatures of ARD's representative.

Criteria

All members of the bid evaluation committee must sign the minutes of bid evaluation.

Recommendation

We recommend that the minutes of bid evaluation and/or the award decision be signed by all members of the assigned evaluation committee.

e) Engineering services

Condition

We noted that Palestinian Early Childhood Educational Programs did not document the selection of the engineer responsible for the preparation of drawings, specifications and quantities. No procurement procedures were undertaken for this service. Cost paid for engineering services was USD 7,200.

Criteria

Contractors and service providers shall be selected in a competitive manner (where practicable) and the basis of selection must be documented.

Recommendation

We recommend the management of Palestinian Early Childhood Educational Programs to select its contractors and service providers through clear , transparent and well-documented procedures.

f) Authenticity of bids

Condition

We noted that certain bids were not signed and stamped by bidders. We noted this finding in the procurement of painting materials (USD 4,946). Note: the offer that was not stamped had been the winning offer.

Criteria

Palestinian Early Childhood Educational Programs must not accept bids which are not officially signed and stamped by the bidder.

Recommendation

We recommend Palestinian Early Childhood Educational Programs to provide bidders with clear instructions. Such instructions shall include, among other things, signing and stamping of offer.

5. Disallowed Costs

No disallowed costs, as defined in the grant agreement, were incurred. Funds were used for intended purposes in all material respects.

6. End-use Review

We conducted field visits to four rehabilitated kindergartens and noted that these kindergartens are in good condition and are being used for intended purposes.

7. Marking

ADS 320 (Marking) does not apply to grants or cooperative agreements to non-governmental organizations. However, it is common to have such requirements applied by NGOs. For Palestinian Early Childhood Educational Programs, management informed us that they were not asked to comply with ADS 320 (Marking). Consequently, no marks acknowledging financing by USAID/ARD existed.

8. End-of-Project Certification

Palestinian Early Childhood Educational Programs has certified in writing to ARD at the end of the grant that the activity was completed.

9. Fraud, Abuse and Illegal Acts

Our examination has not identified any incidents of fraud, abuse or illegal acts.

10. Value Added Tax Regulations

The grant agreement did not include an article asking Palestinian Early Childhood Educational Programs to comply with Section 579 of Foreign Operations Act of 2003 which requires that commodities (valued at USD 500 or more) acquired during the year 2003 (from February 20, to September 30) for U.S. Foreign Assistance shall not be subject by a foreign country to value added taxes (VAT) or customs duties (or that any such taxes charged be fully reimbursed). Nevertheless, we noted from the sample we tested that all payments made directly by ARD were supported with zero-VAT invoices. For payments made by Palestinian Early Childhood Educational Programs, our audit sample indicated that VAT regulations were adhered to in all material respects. It is worth mentioning that large portions of the funds spent by Palestinian Early Childhood Educational Programs pertain to wages of workers and salaries which are not subject to VAT regulations.

11. Compliance with Executive Order 13224 - Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism

Our examination has not identified any incidents of non-compliance from Palestinian Early Childhood Educational Programs' side that have to be reported to USAID. However, our examination identified that AAPD 02-04; implementation of E.O 13224 – Executive Order on Terrorist Financing (March 20, 2002) was not adhered to. The required standard wording of AAPD 02-04 was not included in the text of the grant agreement.

12. Follow-Up on Prior Audit Recommendations

According to ARD, no audits or attestations have ever been conducted in respect of the grant in particular. However, ARD had an overall audit covering 2003/2004 operations. We understand that the audit identified two issues; one related to ARD not auditing its sub-grantees and the other related to classification of a certain expense.

The two findings are not related to our work. We understand that ARD is dealing with these findings and will dispose of one of them and implement the other.

For Palestinian Early Childhood Educational Programs, no audit or attestation had ever been conducted in respect of the grant in particular. However, the overall accounts of Palestinian Early Childhood Educational Programs are audited by a local accountant on annual basis. We obtained a copy of the audited accounts for the years ended December 31, 2004 and 2003; the auditor expressed an unqualified opinion of those accounts.

APPENDIX "A" – ARD Comments



December 8, 2006

Mr. Musa Abu Dieh, CPA
Country Managing Partner
El Wafa & Co.
Ramallah

Dear Mr. Abu Dieh:

This letter is in response to El Wafa's letter dated February 20, 2006 regarding findings concerning compliance with executive order 13224 and procurement procedures of Rafeed's subgrantees.

1) Compliance with Executive Order 13224 – Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism”

El Wafa noted material weaknesses in all four examinations:

- Examination of Beit Lahiya Development Association's Compliance with the Grant Terms and Conditions Awarded by ARD, Inc., point 11;
- Examination of Elderly Home Charitable Society's Compliance with the Grants Terms and Conditions Awarded by ARD, Inc., point 11;
- Examination of An-Nuwei'meh Charitable Society's Compliance with Grant Terms and Conditions Awarded by ARD, Inc., point 10; and
- Examination of Palestinian Early Childhood Educational Program's Compliance with Grant Terms and Conditions Awarded by ARD, Inc., point 11.

ARD agrees that El Wafa correctly identified that the provision required by AAPD 02-04 was not included in grant agreements by ARD. According to AAPD 02-04 the following provision should have been included:

"The Contractor/Recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws. This provision must be included in all subcontracts/subawards issued under this contract/agreement."

However, in substitution the following language was included in the grant agreements:

"Disclaimer: As a condition of entering into the referenced agreement, [Name of the Organization] hereby certifies that it has not provided and will not provide material support or resources to any individual or entity that it knows, or has reason to know, is an individual or entity that advocates, plans, sponsors, engages in, or has engaged in terrorist activity, including

but not limited to the individuals and entities listed in the Annex to Executive Order 13224 and other such individuals and entities that may be later designated by the United States under any of the following authorities: § 219 of the Immigration and Nationality Act, as amended (8 U.S.C. § 1189), the International Emergency Economic Powers Act (50 U.S.C. § 1701 et seq.), the National Emergencies Act (50 U.S.C. § 1601 et seq.), or § 212(a)(3)(B) of the Immigration and Nationality Act, as amended by the USA Patriot Act of 2001, Pub. L. 107-56 (October 26, 2001)(8 U.S.C. §1182). The Grantee] further certifies that it will not provide material support or resources to any individual or entity that it knows, or has reason to know, is acting as an agent for any individual or entity that advocates, plans, sponsors, engages in, or has engaged in, terrorist activity, or that has been so designated, or will immediately cease such support if an entity is so designated after the date of the referenced agreement. 'Material support and resources' includes currency or other financial securities, financial services, lodging, training, safe houses, false documentation or identification, communications equipment, facilities, weapons, lethal substances, explosives, personnel, transportation, and other physical assets, except medicine or religious materials."



Partner for USAID/EAP in West Bank and Gaza

Lutheran Church Street, P.O. Box 2080, Ramallah or P.O. Box 51962, Jerusalem Tel: (970) 02-2964489 Fax: (970) 02-2958879



This language is that laid out in AAPD 02-19, the “Certification Regarding Terrorist Funding”, hence forth referred to as the “ATC” for Anti-Terrorism Certificate. This bureaucratic error was made in part due to a transition in staffing from Steve Browne to Heather Brophy as the Grants Systems Manager. At the beginning of the implementation of the ATC, ARD incorporated the ATC language within grant agreements. This method of implementing the ATC was under discussion with USAID by ARD and other contractors. Due to Mr. Browne’s departure in May 2003 the inclusion of the ATC language in substitution for the required AAPD 02-04 provision language continued even after Rafeed began institution of the ATC through the grantees’ signing a stand-alone document. This error was corrected in February 2004 in ARD’s grant templates and in all later grants.

All of the grantees did sign the ATC as a stand alone certificate in addition to having the language incorporated into the grant agreements themselves.

ARD notes that these two paragraphs fundamentally cover the same issue in ensuring that grantees understand Executive Order 13224 and their responsibilities regarding funding of terrorist activities. The critical difference is that the provision indicates that the grantees should included the provision in all subcontracts/subawards issued under the agreement. This issue however is negated because all of the ARD grant awards also included the following language restricting the awarding of subawards and ensuring ARD’s involvement in subawards:

“Conditions: It is hereby certified by the Grantee’s agent that ARD funds will not be used to finance

- i. International travel
- ii. Indirect costs
- iii. Any sub-agreements without specific authorization

The Grantee furthermore stipulates that all activity costs have been clearly identified, and that all goods purchased will meet USAID regulations as prescribed by ARD and that no single item will have a useful shelf life of over one year or a cost of over US\$5,000. All goods with a cost of over US\$5000 will be purchased directly by ARD in the Grantee’s behalf.”

The intent of the AAPD 02-04 provision was included. Further, as El Wafa & Co. has noted, their examinations did not identify any incidents of non-compliance with Executive Order 13224.

2. Procurement Procedures

- Examination of Palestinian Early Childhood Educational Program’s Compliance with Grant Terms and Conditions Awarded by ARD, Inc., point 4.

ARD, Inc. handled all of the procurement over \$5,000 for PECEP, including procurement for outdoor games, ceramics, and sanitary materials. ARD did not send copies of bids to PECEP as procurement was handled in-house and records are kept in files held at ARD’s office in Ramallah. All procurement was done in accordance with ARD, Inc.’s procurement policy and USAID regulations which ensures the best quality products are bought at the lowest price. ARD has refined its procurement procedures since 2004 to ensure that bid documents are stamped to ensure authenticity.

In the specific example regarding the outdoor games bid, ARD awarded the contract to the lowest bidder that submitted all of the required information listed in the bill of quantity. In this case, the vendor was rejected because he did not submit a clear description of the items to be procured or delivery times. In addition, ARD required the submission of a “bid bond” which the vendor failed to submit. This is the reason why this particular bid was rejected and the 2nd best bid was selected.

Sincerely,

Mark Levenson
Chief of Party
Rafeed



Partner for USAID/EAP in West Bank and Gaza

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