



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

AUDIT OF THE FUND ACCOUNTABILITY STATEMENT
OF USAID RESOURCES MANAGED BY DPK
CONSULTING UNDER CONTRACT NUMBER
DFD-I-00-04-00173-00, "NETHAM RULE OF LAW
PROGRAM", FOR THE PERIOD FROM
SEPTEMBER 30, 2005, TO SEPTEMBER 29, 2006

AUDIT REPORT NO. 6-294-07-038-N
JULY 24, 2007

CAIRO, EGYPT

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



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

Report No. 6-294-07-038-N

July 24, 2007

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

FROM: Regional Inspector General/Cairo, Lloyd J. Miller /s/ [Robert Clark for]

SUBJECT: Audit of the Fund Accountability Statement of USAID Resources Managed by DPK Consulting Under Contract Number DFD-I-00-04-00173-00, "NETHAM Rule of Law Program", for the Period From September 30, 2005, to September 29, 2006

The Regional Inspector General/Cairo is transmitting the audit report prepared by PricewaterhouseCoopers on the subject audit.

The Regional Inspector General/Cairo reviewed the audit report and found it to be in accordance with the Generally Accepted Government Auditing Standards and the USAID Office of Inspector General's Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines) except that PricewaterhouseCoopers did not have an external quality control review by an unaffiliated audit organization because professional organizations in West Bank and Gaza do not offer such a review program.

Under Contract DFD-I-00-04-00173-00, USAID/West Bank and Gaza provided funds to DPK Consulting to build respect for and adherence to the rule of law, by working hand in hand with the Ministry of Justice, court administrators, and key judicial institutions. The audit report covered expenditures of \$632,953 for the period from September 30, 2005, through September 29, 2006.

The audit included: (1) expressing an opinion on the Fund Accountability Statement; (2) obtaining an understanding of the recipient's internal control structure and assessing control risk; and (3) determining compliance with the contract terms and applicable laws and regulations. The audit tested the contractor's compliance with Executive Order 13224 – Blocking Property and Prohibiting Transactions With Persons who Commit, Threaten to Commit, or Support Terrorism.

The auditors expressed a qualified opinion on the Fund Accountability Statement and questioned ineligible costs of \$58,901. The auditors identified one reportable internal control weakness and two material instances of non-compliance with agreement terms and applicable laws and regulations. The auditors did not identify material instances of non-compliance with Executive Order 13224.

Based on our review, we are including two recommendations in USAID's Consolidated Audit Tracking System:

Recommendation No. 1: We recommend that the Contracting Officer, USAID/West Bank and Gaza, make a management decision on the questioned ineligible costs of \$58,901, as detailed on pages 15 through 23 of PricewaterhouseCoopers report, and recover from DPK Consulting any amounts determined to be unallowable.

Recommendation No. 2: We recommend that the Contracting Officer, USAID/West Bank and Gaza, ensure that DPK Consulting implements proper segregation of duties in its financial department, as detailed on pages 24 and 25 of PricewaterhouseCoopers report.

Within 30 days, please advise the Office of Inspector General of actions planned or taken to address the recommendations. Please provide a management decision for each recommendation no later than three months from the date of this memorandum. Evidence of final action should be sent to the Audit Performance and Compliance Division (M/CFO/APC).

Enclosures: a/s

INDEPENDENT AUDITOR'S REPORT

Audit of the Fund Accountability Statement USAID Resources Managed by DPK Consulting under Contract Number DFD-I-00-04-00173-00 "NETHAM Rule of Law Program" for the Period from September 30, 2005 to September 29, 2006

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March 7, 2007

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

Dear Sir / Madam,

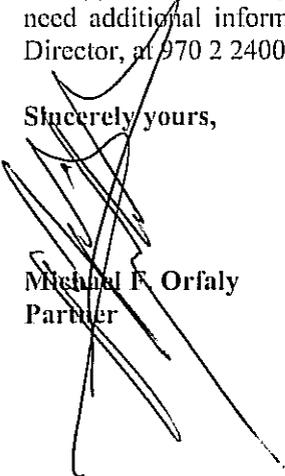
This report represents the results of the audit of the fund accountability statement of USAID Resources Managed by DPK Consulting (hereinafter "DPK") under Contract Number DFD-I-00-04-00173-00, named "NETHAM Rule of Law Program", for the period from September 30, 2005 to September 29, 2006.

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

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

We appreciate the cooperation and courtesies provided by DPK's management. If you have any questions or need additional information, please contact Mr. Michael F. Orfaly, Partner and/or Mr. Ismail Suleiman, Director, at 970 2 2400 230.

Sincerely yours,


Michael F. Orfaly
Partner

BACKGROUND

USAID awarded DPK Consulting (hereinafter "DPK") Contract Number DFD-I-00-04-00173-00 to carry out "NETHAM Rule of Law Program". Under this contract USAID/West Bank and Gaza provided funds to DPK to build respect for, adherence to, the rule of law by working hand-in-hand with the ministry of justice, court administrators, and key judicial institutions.

The project has two primary components, the first one focuses on professionalizing the formal justice sector by building the institutional capacity of the Ministry of Justice in order to facilitate its emergence as a vital proponent of judicial reform. In addition the project aims to upgrade the skills of the court administrators, through training and capacity building efforts to achieve better job performance by empowering court enforcers and processors and to provide technical assistance to improve coordination, policy planning and strategic development within the Ministry of Justice and to provide the equipment necessary to integrate and automate the Ministry's IT system.

The second component focuses on improving the enforcement of laws and court decisions which is considered to be one of the most serious problems jeopardizing the Palestinian judicial system. It focuses on improving the capabilities of the courts decision makers in the areas of administration and law enforcement.

The project's duration is three years from September 30, 2005 to September 29, 2008 in total amount of 8 million dollar. However, after 4 months from the starting of the project, it was suspended by the USAID.

This report covers local expenditures incurred and reimbursed in the West Bank and Gaza during the period from September 30, 2005 to September 29, 2006.

Indirect cost rates are not reflected in the accompanying fund accountability statement, since they are accounted for at the contractor Home Office. Furthermore, this contract does not require cost sharing contribution, and therefore, cost sharing schedule is not included in this report. Finally, this report does not include any prior period audit recommendations because this is the first time audit and no previous audits were performed on this contract.

AUDIT OBJECTIVES

The specific objectives of this audit are:

- A- Determining if expenditures reported as incurred under the contract are in fact allowable, allocable, reasonable, and applicable to the contract,
- B- Expressing an opinion as to whether the Fund Accountability Statement presented fairly, in all material respects, the funds received and costs incurred for the period under audit, in conformity with the basis of accounting as described in note (2) in the financial statement section,
- C- Evaluating and obtaining a sufficient understanding of the recipient's internal control, assess control risk, and identify reportable conditions including material internal control weaknesses,
- D- Performing tests to determine whether DPK's management complied, in all material respects, with the contracts terms and applicable laws and regulations.

AUDIT SCOPE

This audit covers the local direct and administrative costs incurred in the West Bank and Gaza only for the total amount of US \$ 632,953. This audit does not cover amounts expensed during other period and does not include any amounts received or disbursed under any other contracts with the USAID.

The audit was conducted in accordance with U.S. Government Auditing Standards. The principal audit criterion was the Office of Inspector General's (OIG) "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines) dated June 2003, and the scope stated in the statement of work in the task order contract signed between PricewaterhouseCoopers-West Bank and Gaza and the USAID. The scope of the audit includes various audit steps that have been performed on a sample basis, obtaining adequate coverage based on the audit objectives and comfort required.

The main categories of the audit procedures performed include *"but are not limited to"* the following procedures:

- 1- Performing pre-audit steps which include reviewing project documents and USAID policies,
- 2- Examining the Fund Accountability Statement and the related notes, this includes testing revenues, expenditures, bank accounts and related budgets,
- 3- Performing tests of controls related to the contract's different activities, this includes testing control activities, control environment, monitoring controls, controls over compliance, and information and communications,
- 4- Performing tests of compliance with the contract's terms and the related laws and applicable regulations.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 52 of US Government Auditing Standards, since no such program is offered by professional organizations in the West Bank and Gaza. We believe that the effects of this departure from US Government Auditing Standards are not material because we participate in the PricewaterhouseCoopers worldwide internal quality control review program, which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices. Additionally, sample of our audit files is subject to early review by partners and managers from other offices.

SUMMARY OF AUDIT RESULTS

This summary represents the results of our audit of DPK in respect to contract number DFD-I-00-04-00173-00 "NETHAM Rule of the Law Program", for the period from September 30, 2005 to September 29, 2006.

As required by the U.S. Government Auditing Standards, we performed the audit to obtain reasonable assurance about whether the fund accountability statement and the accompanying notes have been presented fairly by management. Our independent auditors' report and the fund accountability statement are included in the financial section of this report.

The results of our tests disclosed material questioned costs amounting to \$58,901 as detailed in Note (8) to fund accountability statement. We concluded that except for the questioned costs, the fund accountability statement is fairly presented in all material respects in accordance with the basis of accounting as explained in note (2) to the financial statement.

Regarding the program internal control, our report includes one reportable material weakness. However, during the course of our audit we identified one other immaterial weakness in the application of internal control, which was reported to management in a separate letter.

Regarding compliance with contract terms and related laws and regulations, our report includes two material instances of noncompliance that are required to be reported under Government Auditing Standards. Additionally, we identified one other immaterial instance of noncompliance which was reported to DPK's management in a separate letter.

The results of our audit revealed no material instances of noncompliance with:

- 1- USAID/West Bank and Gaza's vetting requirements and with the terms and conditions of USAID Assistance and Acquisition Procurement Directives AAPD 02-04 (*Implementation of E.O. 13224, Executive Order on Terrorist Financing*) and AAPD 04-07 (*Revised Certification Regarding Terrorist Financing Implementing E.O. 13224*).
- 2- Restriction on Taxing Foreign Assistance (Section 579 as Amended by Section 506 of the FY 2004 Foreign Operation Act) which maintains that U.S. Foreign Assistance shall not be subject by a foreign country to Value Added Taxes (VAT) or customs duties.
- 3- AID Acquisition Regulations (AIDAR) No. 752.7001 titled "Biographical Data Sheet".

SUMMARY OF THE RECIPIENT'S MANAGEMENT COMMENTS

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

Findings

DPK management's comments

Finding on Internal Controls:

We noted that the accounting department consists of one person only, "The Financial Manager", and that there is no review of the work performed by him from a proper managerial level such as the Acting Chief of Party.

First response

DPK argues this finding, see appendix A for their full response.

Amendment to the first response after the exit meeting

See appendix B and related attachments

Findings on Compliance:

The contract specifies that the Authorized Geographic Code for procurement of services and goods is 000 (only United States). Under this term, leased vehicles must be manufactured in the United States to be eligible for USAID financing. DPK did not comply with this requirement because they leased Non-US source and origin vehicles for the total cost of \$21,004 during the period under audit.

First response

DPK argues this finding, see appendix A for their full response.

Amendment to the first response after the exit meeting

See appendix B and related attachments

DPK paid thirteen and fourteen months salaries for total amount of \$37,897. We do not consider these payments as part of the approved budget.

First response

DPK does not agree and argues this finding, see appendix A for their full response.

Amendment to the first response after the exit meeting

See appendix B and related attachments

Independent Auditor's Report

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

We have audited the fund accountability statement of DPK Consulting (hereinafter "DPK") under Contract Number DFD-1-00-04-00173-00 "NETHAM Rule of the Law Program" for the period from September 30, 2005 to September 29, 2006. This fund accountability statement is the responsibility of DPK's management. Our responsibility is to express an opinion on this fund accountability statement based on our audit. The total costs incurred during the period under audit amounted to US Dollar 632,953, as detailed in the fund accountability statement.

Except as discussed in the following paragraph, we conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Chapter 3, paragraph 52 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in the West Bank and Gaza. We believe that the effects of this departure from U.S. Government Auditing Standards are not material because we participate in the PricewaterhouseCoopers worldwide internal quality control review program, which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other affiliate offices. Additionally, sample of our audit files is subject to early review by partners and managers from other offices in the region.

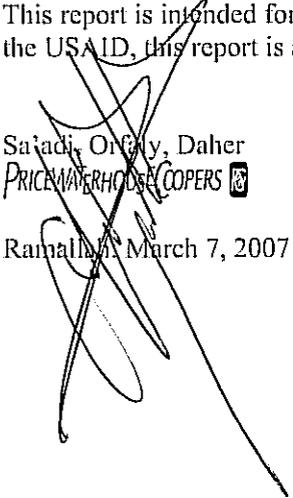
As described in Note (2), DPK's policy is to prepare the accompanying statement on the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

The results of our audit disclosed the following material questioned costs as detailed in the fund accountability statement: (1) \$21,004 in leased vehicle costs that are explicitly questioned because they are ineligible and prohibited by the terms of the contracts, (2) \$37,897 in salary costs that are explicitly questioned because they are ineligible and unreasonable.

In our opinion, except for the effects of the questioned costs discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and commodities and technical assistance directly procured by USAID for the year ended September 29, 2006 in accordance with the terms of the contract and in conformity with the basis of accounting described in Note 2.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated March 7, 2007 on our consideration of DPK's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

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

Sa'adi, Onghy, Daher

PRICEWATERHOUSECOOPERS 

Ramallah, March 7, 2007

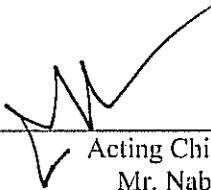
DPK Consulting
Contract Number DFD-I-00-04-00173-00
"NETHAM Rule of Law Program"

Fund Accountability Statement
For the Period from September 30, 2005 to September 29, 2006

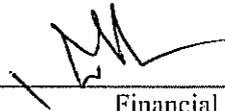
(All amounts in U.S Dollars)

	<u>Budgeted</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Cash Receipts					
Advances Received from DPK's Home Office	2,085,928	645,300			3
Costs Incurred					
Salaries Long Term TCN/CCN Experts	756,229	350,684			4 & 7
Consultants TCN/CCN	18,800	3,938			
Fringe Benefits	226,869	62,072	37,897		
Expendable and Non-Expendable Equipment	473,160	81,852			5
Travel, Transportation and Per Diem	289,040	27,481	21,004		
Other Direct Costs	321,830	106,926			6
Total Costs	<u>2,085,928</u>	<u>632,953</u>	<u>58,901</u>		
Fund Balance	<u>-</u>	<u>12,347</u>			7

- Notes to this statement form an integral part thereof.



Acting Chief of Party
 Mr. Nabil Isifan



Financial Manager
 Mr. Baher Zamameri

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

(All amounts in US Dollar)

NOTE (1) - GENERAL

USAID awarded DPK Consulting Contract Number DFD-I-00-04-00173-00 to carry out "NETHAM Rule of Law Program". Under this contract USAID/West Bank/Gaza provided funds to DPK to build respect for, adherence to, the rule of law by working hand -in- hand with the ministry of justice, court administrators, and key judicial institutions.

NOTE (2) - BASIS OF PREPARATION

Accounting basis

DPK's policy is to prepare the fund accountability statement on the modified cash basis of accounting. Under this basis, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred modified to include certain income tax withholdings. This basis is a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

Translation with other currencies

The accompanying fund accountability statement is denominated in US Dollars. Transactions with other currencies are accounted for according to the official exchange rates prevailing at the date of the transactions. No material gains or losses resulted from the settlement of such transactions. Following are the exchange rates of the major currencies against USD as of September 29, 2006:

Currency	Rate
New Israeli Shekel	0.2325
Euro	0.7886
Jordan Dinar	0.7085

NOTE (3) – ADVANCES RECEIVED FROM DPK'S HOME OFFICE

This item represents the total amount of revenues that were recognized after being received from the Home Office.

NOTE (4) - SALARIES LONG TERM TCN/CCN EXPERTS

This item represents all salaries for local employees in the field, as further detailed in the following table:

	Amount
Acting Chief of Party	36,986
Technical Staff	215,048
Administration Staff	98,650
	<u>350,684</u>

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

(All amounts in US Dollar)

NOTE (5) - EXPENDABLE & NON-EXPENDABLE EQUIPMENT

Details-

	<u>Amount</u>
Ramallah Office equipment and software	45,944
Gaza Office Equipment	20,860
Office Expenses and Supplies	<u>15,048</u>
	<u><u>81,852</u></u>

NOTE (6) - OTHER DIRECT COSTS

Details -

	<u>Amount</u>
Windows of Opportunity and Rapid Response	41,445
Rent and Utilities	35,598
Telephone & Internet	7,808
Printings and Reproduction	6,086
Auto Expense	4,158
Seminars and Training	3,260
Project Vehicles	2,574
Registration and Legal Fees	1,665
Interpreting/Translation	1,609
Bank Fees	1,289
Temporary Help	868
Postage & Delivery Expenses	468
Equipment Maintenance and Repair	98
	<u><u>106,926</u></u>

NOTE (7) - FUND BALANCE

Details -

	<u>Amount</u>
Cash Balance - End of Period	37,127
Less: Income Tax Withholdings Cash	(25,546)
Add: Disallowed Expensed (not included)*	<u>766</u>
Fund Balance - End of Period	<u><u>12,347</u></u>

*This amount was not billed to the USAID and was not included in the Fund Accountability Statement.

NOTE (8) - QUESTIONED COSTS

Details -

<u>Description</u>	<u>Amount</u>	<u>Reference to Finding *</u>
Non compliance with the Source and Origin Rules - Leased Cars	21,004	Number 1
Thirteen and Fourteen Months Salaries - Fringe Benefits	<u>37,897</u>	Number 2
	<u><u>58,901</u></u>	

* See Appendix A.

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Independent Auditor's Report on Internal Control

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

We have audited the fund accountability statement of DPK Consulting (hereinafter "DPK") under Contract Number DFD-I-00-04-00173-00 "NETHAM Rule of the Law Program" for the period from September 30, 2005 to September 29, 2006.

Except for not having an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

The management of DPK Consulting is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contracts and transactions are recorded properly to permit the preparation of the fund accountability statement in conformity with the basis of accounting described in Note 2 to the fund accountability statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of DPK in respect to Contract Number DFD-I-00-04-00173-00, for the period from September 30, 2005 to September 29, 2006, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted one certain matter involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

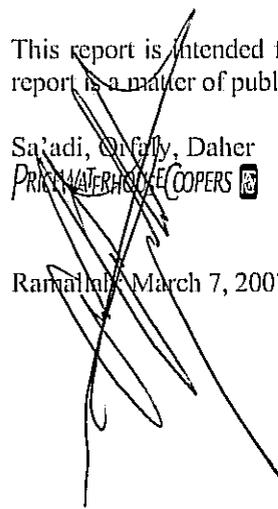
A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the fund accountability statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the internal control structure and its operations that we consider to be material weakness as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the fund accountability statement of DPK Consulting in respect to Contract Number DFD-I-00-04-00173-00 "NETHAM Rule of the Law Program" for the period from September 30, 2005 to September 29, 2006.

Custody of assets, bookkeeping, and authorization are conflicting duties that should not be performed by the same individual. However, during the course of our audit, we noted that the accounting department consists of one person only, "The financial Manager", and that there is no review of the work performed by him from a proper managerial level such as the Acting Chief of Party.

We also noted one matter involving internal control and its operation that we have reported to the management of DPK in a separate letter dated March 5, 2007.

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

Sa'adi, Orfaly, Daher

PRICEWATERHOUSECOOPERS 

Ramallah, March 7, 2007

Independent Auditor's Report on Compliance

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

We have audited the fund accountability statement of DPK Consulting (hereinafter "DPK") under Contract Number DFD-I-00-04-00173-00 "NETHAM Rule of the Law Program" for the period from September 30, 2005 to September 29, 2006.

Except for not having an external quality control review by an unaffiliated audit organization (as described in our report on the fund accountability statement), we conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violations of contract terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with contract terms and laws and regulations applicable to Contract Number DFD-I-00-04-00173-00 "NETHAM Rule of the Law Program" is the responsibility of DPK's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of DPK's compliance with certain provisions of contract terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of contract terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our compliance tests disclosed the following material instances of noncompliance, the effects of which are shown as questioned costs in the fund accountability statement:

1. The contract specifies that the Authorized Geographic Code for procurement of services and goods is 000 (only United States). Under this term, leased vehicles must be manufactured in the United States to be eligible for USAID financing. DPK Consulting did not comply with this requirement because they leased Non-US made vehicles for the total cost of \$21,004.
2. DPK paid 13th and 14th months salaries for the total amount of \$37,897 and classified these amounts as fringe benefits. These payments are not part of the approved budget, and they should have been disclosed as salaries and not as fringe benefits. We consider these amounts to be ineligible and unreasonable.

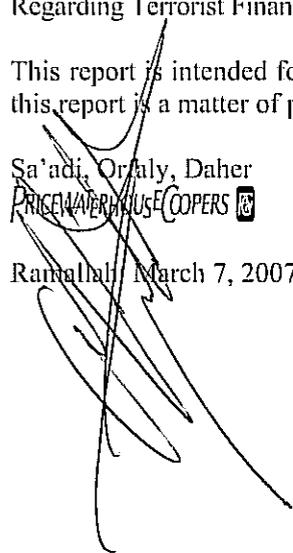
We considered these material instances of noncompliance in forming our opinion on whether DPK fund accountability statement named above is presented fairly, in all material respects, in accordance with the terms of the contract and in conformity with the basis of accounting described in Note 2 to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated March 7, 2007.

We noted one immaterial instance of noncompliance that we have reported to the management of DPK in a separate letter dated March 5, 2007.

The results of our tests disclosed no material instances of noncompliance with the terms and conditions of USAID Assistance and Acquisition Procurement Directives AAPD 02-04 (Implementation of E.O. 13224, Executive Order on Terrorist Financing) or with AAPD 04-07 (Revised Certification Regarding Terrorist Financing Implementing E.O. 13224).

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

Sa'adi, Orfaly, Daher


PRICEWATERHOUSECOOPERS 

Ramallah, March 7, 2007

FINDINGS AND RECOMMENDATIONS

1- Non Compliance with the Source and Origin Rules - Leased Cars

Background:

According to point A.14 in the signed contract with the USAID, the Authorized Geographic Code for procurement of services and goods under the contract is 000 United States only) and shall be in accordance with 22 CFR 226.40 entitled "Procurement Standards" and 22 CFR 228.13 and 228.14 regulations for the procurement of rent cars. During our audit on the rented vehicles, we noticed that DPK has rented a non US source and origin cars without obtaining a waiver from the USAID. The total costs amounting to \$21,004 will be questioned as a result of this finding.

According to 22 CFR 228.12 "Long-term leases", any commodity obtained under a long-term lease contract is subject to the source and origin requirements of subpart B. For purposes of subpart B, a long-term lease is defined as a single lease of more than 180 days, or repetitive or **intermittent** leases under a single activity or program.

According to 22 CFR 228.13 (b) "Leased Vehicles", motor vehicles must be manufactured in the United States to be eligible for USAID financing. Also, any vehicle to be financed by USAID under a long-term lease or where the sale is to be guaranteed by USAID must be manufactured in the United States (22 U.S.C.2396). For purposes of this section, motor vehicles are defined as self-propelled vehicles with passenger carriage capacity, such as highway trucks, passenger cars and buses, motorcycles, scooters, motorized bicycles and utility vehicles. Excluded from this definition are industrial vehicles for materials handling and earthmoving, such as lift trucks, tractors, graders, scrapers, off-the-highway trucks (such as off-road dump trucks) and other vehicles that are not designed for travel at normal road speeds (40 kilometers per hour and above).

Criteria:

Leased cars should be US made or otherwise a waiver should be obtained to rent non-US made vehicles.

Cause:

DPK did not obtain the required waiver for renting non-US made vehicles.

Effect:

DPK is not in compliance with the terms of its contract with the USAID and this will result in ineligible costs for the total amount of \$21,004.

Recommendation:

DPK should refund these amounts to USAID as they were not paid in accordance with the terms of the contract.

Management's Response:

First Response:

When the project began, NETHAM rented vehicles for a short period of time, with the intention to conduct a full purchase vs. lease analysis to be presented to USAID. In the project's proposal to USAID, we included the cost of procuring two vehicles. Therefore, shortly after mobilization, the project began to collect offers to buy US made vehicles and our analysis and recommendations were provided to USAID for approval. A Request for Approval of vehicle procurement was sent to USAID on January 5, 2006 (attachment I). In that letter, we indicated that as outlined in our proposal, DPK had performed a thorough lease vs. procurement of vehicle analysis and market research. During the contact negotiation period, USAID had verbally indicated a preference to procure vehicles and this matter was taken into consideration.

Due to the political situation, and the project being put "on hold" as a result of the Palestinian Legislative Council (PLC) elections and the no contact policy, the waiver was not processed by USAID. Therefore, we continued renting vehicles on a three-month basis as we were not certain of the project's future status and we could not enter into a long term commitment with car rental companies. Each three months we issued a purchase order to rent the vehicles for an additional three months.

When we initially entered into the agreement with the car rental companies, we rented one vehicle that was not American made (Suzuki) and after two months we requested that all vehicles we rent comply with the American made terms and therefore that car was replaced with a Chevrolet so the project then had two Chevrolet rented vehicles. We mentioned in the terms of the purchase orders that the vehicles should be US made. We had no reason to believe and never expected that those vehicles were not US made (Purchase Orders attached (attachment II)).

Additionally, in one of our internal communications the field office wrote the Home Office in San Francisco that the project was in compliance with the source, origin and nationality requirements (communications attached (attachment III)).

It was not until our first meeting with the auditors that we found out that those vehicles are actually made in South Korea and not in the United States. The auditors brought the issue up and we then took immediate action to call the car rental agency in the presence of the auditors and we were surprised to learn that the vehicles were not American made. We took immediate corrective action and returned the two vehicles.

We believe that these series of events, issuing purchase orders, internal communication, communication with the car rental company in the presence of auditors and the immediate action taken afterwards, leaves no doubt that DPK Consulting/NETHAM acted in good faith and with no intentions to break any regulation.

Amendment to the first response after the exit meeting:

DPK/NETHAM followed US government and DPK procurement procedures to obtain U.S. origin leased vehicles and took steps to ensure that the car that we ordered met source and origin requirements. During the course of the audit, it was discovered that the vendor misrepresented the source and origin to DPK/NETHAM. Corrective action was taken immediately by the project to obtain vehicles of U.S. origin upon this discovery. We refer the contracting office to the Original Management Response on this issue for the details surrounding this transaction and supporting documentation.

We note that correspondence between DPK and USAID providing background as to the lease versus purchase option provided to the auditors at the closing meeting was not included in the draft audit report. **Attachment 1** is a copy of the relevant sections from that letter which should be a part of the final audit report as further background on this issue. A complete copy is available on file if USAID requires it.

Auditor's Response:

The total amount of \$21,004 paid for the leased vehicles is questioned cost, and the above response provided by DPK does not change this conclusion.

2- Thirteen and Fourteen Months Salaries

Background:

During our testing of account number 509 "Fringe Benefits" we noted that the total balance of this account is \$62,072 and part of this balance (\$37,897.25) represents thirteen and fourteen month salary payments. After our review of the signed contract with the USAID we could not find an article or clause that shows that these payments are part of the salary and in line with the budget. Accordingly, the total amount of \$37,897.25 is considered questioned (ineligible) costs.

DPK paid the employees thirteen and fourteen month salaries that were charged to the fringe benefit account instead of being charged to the salary account. These extra salary payments are an integral part of employees' salaries and not a fringe benefit. Fringe benefit is defined as "an employment benefit (as a pension or a paid holiday) granted by an employer that has a monetary value but does not affect basic wage rates". However, this 13th and 14th months salary payments directly affect the basic annual salary rates and should not be considered fringe benefits because they are salary compensation.

The proposed salary amount that was included in the Biographical Data Sheet was based on 12 months and did not show the 13th or the 14th salary payments. However, these payments were clearly stated in the billing sent to the USAID as fringe benefits and were not hidden from the USAID, but this does not change the fact that these payments should have been included as salary.

Cause:

The USAID approves salaries based on monthly basis. This approval was based on 12 months period and not on 13 and 14 months (annual salary = approved monthly rate * 12). Accordingly these payments are an integral part of the salary and were paid without being approved by the Contracting Officer. DPK did not make clear to the Contracting Officer that they will pay 13 and 14 months instead of 12 months, and they did not obtain separate approval on such payments. This practice took place because they classified these payments as fringe benefits and therefore these payments will not violate the pre-approved salary rates as provided in the Biographical Data Sheet.

Effect:

The total amount of \$37,897 is considered as questioned (ineligible) costs and should be refunded back to the USAID.

Recommendation:

We recommend DPK to be in compliance with the contract terms and conditions by carrying out activities allowed in the approved budget.

Management's Response:

First Response:

We would like to clarify several key issues concerning this matter. This 13th and 14th benefit/bonus is **not part of the employee's salary** and it would be a great mischaracterization and misleading to report it as such. This is a fringe benefit that DPK/NETHAM has consistently reported to USAID since the start of the project in monthly invoices to as a fringe benefit.

In order to give some background, in determining the scope of employee contracts and the package of benefits, DPK recruited the services of a trained labor lawyer who advised the project on the proposed contract and benefits. This attorney conducted market research and recommended a proposed package. In finalizing and offering the employee contract, DPK ensured that the benefits are consistent with the local market, the Labor Law, and USAID/DPK policies and regulations. We also ensured that the fringe benefits did not exceed the approved 30% rate for benefits in the USAID project contract. The attorney even recommended additional benefits that were not incorporated into the contract including a 15th benefit, issuing a Provident Fund, and transportation allowance as is common practice in many local institutions. Article 6 of the Labor Law states: "*Provisions of this law represent the minimum level of laborers' rights that can not be waived. Whenever a special system is available to organize labor, provisions of this law or provisions of a special rule shall be applied, whichever is better for the laborer.*"

As a policy, DPK develops all benefit packages in countries so as to comply with the local labor law (i.e. ensuring at least the minimum benefits required by law are offered) while at the same time being competitive with other government contractors. In accordance with AIDAR 722.170(b), care is taken to not exceed the benefits provided in the local mission's compensation plan.

In the West Bank and Gaza, the local Labor Law clearly states that the basic wage, according to Article 1 of the law includes "*agreed upon monetary and/or in kind equivalent paid to laborer for his work; increments and allowances are not included whatever they are.*" In interpreting this article it is fairly clear that semi-annual bonus, as well as Provident Fund benefits should not be included in the basic salary. Any benefit beyond the basic salary is a fringe benefit. In addition, USAID's own contractor employee biographical data sheet states the exclusion of bonuses and profit sharing arrangements. To further reinstate this matter, in filling out the USAID biographical sheet, NETHAM employees who received this benefit from previous employers have not included this benefit/bonus as part of their salary since it is a commonly known fact this is a bonus and not part of the annual salary.

DPK does not see how this benefit can be characterized as part of the employee's annual salary since employees are not eligible for this benefit unless the employee completes 6 and 12 months of employment, respectively to receive 13th and 14th month benefits. As an example, in two cases where employees resigned from the project before completing these milestones, they were not eligible for this benefit.

In the local market, it is indeed a common practice in the West Bank and Gaza for employers to pay a 13th and 14th month salaries as a bonus-- this is also commonly offered in lieu of a

Provident Fund—this includes all banks, insurance companies and a number of NGOs as well as USAID funded projects.

DPK Consulting also offers this fringe benefit to its locally hired staff in Jordan and the Dominican Republic where it is a standard practice for employees to receive this benefit.

We hope that we were able to clearly explain the background and rationale behind offering these benefits and how it should be billed.

Amendment to the first response after the exit meeting:

We have provided additional information on this issue as requested during the exit meeting. The thirteenth and fourteenth month allowances were established consistent with:

- The terms of DPK’s task order and IQC contract with USAID
- The cost proposal submitted for this task order
- DPK’s internal policies and procedures for establishing local fringe benefits including seeking local legal advice
- Survey of other companies with USAID projects on the appropriate fringe benefits to offer to be consistent with other USAID contractors

DPK’s task order and IQC contract with USAID

In accordance with AIDAR 752.7007(a) “Personnel Compensation”, incorporated by reference in Section I.1 of the master IQC contract governing this task order, DPK established direct compensation packages for its personnel “in accordance with the Contractor’s established policies, procedures, and practices, and the cost principles applicable to this contract.”

In Part I Section B.2, “The Price Schedule” of the task order, it states that “the annual salary of an individual is his basic compensation exclusive of fringe benefits, travel incentives, housing allowances, differentials, or other bonuses.” The thirteenth and fourteenth month allowances are listed in the employee contracts (**Attachment 2**) as “Fringe Benefits” and were clearly established by DPK as part of the fringe benefits package (not base salary).

Cost Proposal

In the cost proposal narrative, we stated that “DPK will provide fringe benefits to CCN employees in accordance with local practice. We have estimated the fringe benefit rate to be 30 percent of base salary. We will bill actual fringe benefit costs.”

The project’s actions have been consistent with this statement. Actual fringe benefits payments for the period October 1, 2005 – May 30, 2007 for local fringe benefits totaled \$158,000, or 24 percent of local salary. We expect that the total actual fringe benefits paid over the project life will approximate the 30 percent budgeted.

DPK Internal Policies and Procedures

DPK follows a policy of establishing fringe benefits in accordance with local law and requirements. In the case of West Bank and Gaza, the laws are not totally clear so we followed our practice of hiring a local labor lawyer. We contracted with a recommended labor attorney to advise us on the benefits required under local labor law and what general local practice is. The fringe benefits that we decided to offer were less than those included in his findings of what is permitted under local labor law and practice (see Attachment 3). The approach of contracting a local lawyer is consistent with our internal procedures when the law is not totally clear. As outlined below, we also survey other projects to determine what benefits they provide.

Survey of Other Projects

DPK consulted with other USAID projects and private companies (see Table 2.1, below). The fringe benefits that they offer range between 28% - 31% of total salary although the components of the fringe benefits may vary somewhat. The practice of other US government contractors with whom we consulted follows.

Table 2.1 – Benefits Provided by USAID Contractors and DPK Consulting

Description of Benefits Allowable Under Labor Law (includes % of salary)	DPK/ NETHAM	CARE INT'L / USAID Contracts	DAI/ USAID Contracts
Total Benefits as % of Salary*	28.9%	30.6%	27.9%
Severance Pay – One month per year worked (8.3%)	YES	YES	YES
Transportation Allowance (% variable)	NO	\$50/month	NO
Provident Fund (% variable)	NO	YES, 10%	YES, 15.58%
Thirteenth Salary Allowance (8.3%)	YES	YES	NO

Description of Benefits Allowable Under Labor Law (includes % of salary)	DPK/ NETHAM	CARE INT'L / USAID Contracts	DAI/ USAID Contracts
Fourteenth Salary Allowance (8.3%)	YES	NO	NO
Fifteenth Salary Allowance (8.3%)	NO	NO	NO
Life insurance	NO	NO	NO
Health insurance for employee and all dependents (% variable)	YES, Up to \$2,000 per employee, % varies	YES, no limit, all family members covered	YES, \$350/year per family member
Work Accident Insurance Coverage (% variable)	YES	Not known	Not known

The process that we followed resulted in our decision to provide the 13th and 14th month allowances. At the same time we did not offer the provident fund which other contractors offer. As a firm, we are comfortable with the 13th and 14th month approach as it is consistent with practices in other countries that we have USAID contracts so found it more congruent with our normal internal policies.

We deduce from the auditor's response, that an issue for the auditor is why the 13th and 14th month were not classified as salary versus fringe benefits. We outlined in our Original Management Response already incorporated in the audit report our interpretation of Palestinian Labor Law, which was supported by the opinion of our labor lawyer and led to classification of these expenses as fringe benefits.

Auditor's Response:

The above answer does not justify these payments neither in nature nor in definition. We see these payments as unreasonable taking into consideration that the program is suspended. Further, we would like to clarify the following important points to answer the above management response:

- 1- It's true that the fringe benefits did not exceed the budgeted amount of 30%.
- 2- The above citation from Article 6 of the Labor Law is correct. However, adopting better provision in addition to the minimum provided by the law is not appropriate in this case because these benefits are paid from the USAID funds and not from DPK Consulting private funds.
- 3- Comparing the benefits of DPK Consulting to the benefits provided by the USAID mission is not proper because USAID employees are getting paid from the USAID, but DPK Consulting are getting paid under the contract that is funded by the USAID.
- 1- The above definition of the basic wage from Article 1 of the Labor Law is correct. However, the same Article defines wage as *"the full wage; the basic wage plus increments and allowances."*
- 2- These payments are not bonuses and we do not say that in our finding. Referring to the biographical data sheet, we quote the following definition: salary *"basic periodic payment for services rendered. Exclude bonuses, profit sharing arrangements, commissions, and consultant fees, extra or overtime work payments, overseas differentials or quarters, cost of living or dependent education allowances"*. This definition clearly states that salary is a basic periodic payment for services rendered, as is the case with the two months provided by DPK Consulting by the end of each six months period. It's worth noting here that the proposed salary in the biographical data sheet did not show the 13th and 14th month salary payments as part of this proposed salary. Accordingly, we do not agree with the conclusion reached by DPK Consulting.
- 3- The condition of working for a whole period of 6 months to be eligible for the 13th or the 14th month salary payments do not exclude these payments from their definition as salary. First, this condition may not be defended in front of the court if partial payments requested by the employee. Second, these payments are still defined as basic periodic payments for services rendered.
- 4- The bonus if paid by employers on periodic predefined basis is taxable and is considered part of the salary. The bonus that is paid on occasional basis is also taxable and should be treated differently. The bonus is something given or paid in addition to what is usual or expected. And is defined as a sum of

Contract Number DFD-1-00-04-00173-00 "NETHAM Rule of Law Program"
Funded by United States Agency for International Development and Managed by DPK Consulting
Fund Accountability Statement for the Period from September 30, 2005 to September 29, 2006

money or an equivalent given to an employee in addition to the employee's usual compensation, but we can note that this definition does not apply when the payment is expected in advance and is part of the usual compensation.

We could not verify the accuracy of the information provided by DPK about other USAID projects and this information cannot be set as a rule unless approved by the USAID.

3- Segregation of Duties

Background:

During the course of our audit, we noted that the accounting department consists of one person only, "The Financial Manager", and that there is no review of the work performed by him from a proper managerial level such as the Acting Chief of Party.

Criteria:

Custody of assets, bookkeeping, and authorization are conflicting duties that should be segregated.

Cause:

DPK reduced the number of staff because the contract was put on hold or suspended, this has reduced the opportunities of proper segregation of duties due to the limited number of staff.

Effect:

Segregation of duties will reduce the risk of misappropriation of assets.

Recommendation:

We recommend building new project management chart that is properly segregated to the extent possible using the limited resources available and we recommend consulting with the USAID to hire an additional accountant in case this chart is not doable using the available resources.

Management's Response:

First Response

It is true that the project only has one person in the Accounting Department. However, two petty cash funds are held in the Gaza and Ramallah Offices by two different staff persons and are reviewed by the Office Manager in Gaza and the Finance Director in Ramallah. All payments are prepared and recorded by the Finance Director, who does not have the authority to sign checks. All payments and financial reports are reviewed and approved by the Acting COP who has an Accounting Degree and lengthy experience in financial management.

The project was in the process of hiring an accountant but the process was put on hold based on USAID's request. Upon the resumption of project activities we hope to renew this process.

Amendment to the first response after the exit meeting

Duties for the DPK/Natham project are appropriately segregated given the volume of financial transactions and additional internal control procedures established to mitigate the risk arising from our ability to employ only one person in the accounting department for the following reasons:

- Petty cash funds are managed in the Gaza and Ramallah Offices by professional staff other than the Finance Director.
- Payments are prepared and recorded by the Finance Director, who does not have the authority to sign checks.
- Payments and financial reports are reviewed and approved by the Acting COP who has an Accounting Degree and lengthy experience in financial management.
- Transaction detail, bank reconciliations, supporting documentation, and USAID vouchers are reviewed monthly by the San Francisco home office.

The project has not hired any additional staff based on USAID's request due to the project's suspended status. We agree that an additional accountant should be considered upon lifting the project suspension.

Auditor's Response:

DPK should further consult on this matter with the USAID in order to find a better segregation of duties in the financial process.

Appendix -A-: Recipient's Comments

First response



Principals
WILLIAM E. DAVIS
ROBERT W. PAGE, JR.

March 7, 2007

Michael F. Orfaly
Partner
PriceWaterhouseCoopers, Ramallah

Subject: DPK/NETHAM Management Response to Immaterial Audit Findings

We would like to thank you for sending us the audit findings report for the NETHAM Rule of Law Program. Following is our response to the findings in the report. I hope this information is helpful and assists in clarifying some of these issues.

For the record, we would like to note that your letter to the project is dated January 11, 2006 while the letter was actually received on March 5, 2007.

We have appreciated your feedback and the opportunity to facilitate this USAID audit with your professional staff.

Best Regards,

A handwritten signature in black ink, appearing to read "Nabil Isifan", written over a faint, light-colored signature line.

Nabil Isifan

1 - Tax Invoices

We agree with the audit firm that all payments have to be against tax invoices. However, the plants purchased in Gaza were from a farmer and farmers are not authorized dealers and they don't have to issue VAT invoices. The payment for the court signs was to an individual who drew the signs. This person was not registered with the VAT department and we did not know that until after the service have been provided. After that incident we make it a policy to ask all vendors if they are registered ahead of time and that is the reason that there were no more such payments.

2- Petty Cash Payments

It is true that it is our policy to limit the petty cash payments to USD 150. However, it is also our policy to have exception when needed with the approval of the Finance Director who approved all the above payments. Most of the payments were for the Phone Company in Gaza and payments for office supplies. These vendors do not accept checks.



Principals
WILLIAM E. DAVIS
ROBERT W. PAGE JR

March 7, 2007

Michael F. Orfaly
Partner
PriceWaterhouseCoopers, Ramallah

Subject: DPK/NETHAM Management Response to Material Audit Findings

We would like to thank you for sending us the audit findings report for the NETHAM Rule of Law Program. Following is our response to the findings in the report. I hope this information is helpful and assists in clarifying some of these issues.

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1 - Non Compliance with the Source and Origin Rules - Leased Cars

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2 - Thirteen and Fourteen Months Salary

We would like to clarify several key issues concerning this matter. This 13th and 14th benefit/bonus is not part of the employee's salary and it would be a great mischaracterization and misleading to report it as such. This is a fringe benefit that DPK/NETHAM has consistently reported to USAID since the start of the project in monthly invoices to as a fringe benefit.

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The project was in the process of hiring an accountant but the process was put on hold based on USAID's request. Upon the resumption of project activities we hope to renew this process.

Attachment I



Principals
WILLIAM E. DAVIS
ROBERT W. PAGE JR

Dale Lewis,
Contracting Officer
USAID/West Bank Gaza

January 5, 2006

VIA EMAIL

Re: Request for approval of vehicle purchase

Dear Mr. Lewis,

DPK Consulting hereby request your approval for the purchase of two vehicles and the rent of a third vehicle for the use of the NETHAM project.

Background:

As promised in our proposal, DPK has performed a thorough lease/buy analysis and market research concerning the decision to lease or buy project vehicles. We have considered also the USAID comments regarding this issue from the correspondence during the negotiation period.

As our project reaches full staffing, it needs three vehicles that can be serviced in Israel or in West Bank/Gaza. We regularly have teams of staff and consultants visit locations several hours distance from our office in Ramallah.

We have obtained quotes from five dealers in West Bank and Israel for US brand vehicles and have established that the only US origin vehicle available is the Chevrolet Malibu. The Malibu is furthermore available for rent.

Lease/buy:

As requested by USAID during negotiations, we have focused on obtaining quotes for purchasing the necessary project vehicles, but have also obtained leasing information to enable a lease/buy analysis. It is clear from the table below that leasing is generally not an economical option when only economical factors are considered.

As mentioned above we would however like to purchase two vehicles with Palestinian plate, one for Ramallah and West Bank use, and one for Gaza use. The project also needs a vehicle with Israeli license plates to travel within Israel. After consultations with the USAID mission in Tel Aviv, we reached the conclusion that buying a vehicle in Israel will cause three main problems:

- 1- The vehicle will have to be registered in the name of an Israeli citizen, resident or an international person and not in the name of the project as the project is not registered in Israel.
- 2- At the end of the project we would not be able to transfer the title to any person or legal entity in the West Bank and Gaza.

3- We would have to pay full customs and VAT on this purchase.

Given the cost for customs and VAT, the cost of a Chevrolet Malibu with full customs and VAT will be USD 35,600 **excluding** insurance, registration and maintenance. If we rent the same vehicle for the duration of the project it will cost USD 33,000 **including** insurance, registration and maintenance. For the third project vehicle with Israeli license plates we therefore propose to rent a Chevrolet Malibu for the duration of the project.

Quote evaluation:

These are the quotes we have received and the origin of the vehicles offered:

	Free of Customs	With Customs	Rent for 30 months	Origin
Cherokee (Liberty Sport)	\$30,500	\$59,800	NA	Non-US
Chevrolet Trail Blazer	\$36,500	\$63,000	\$46,500	US
Chevrolet Malibu	\$19,000	\$35,600	\$33,000	US
Ford Mondeo	\$18,600	\$36,000	\$27,000	Non-US
Ford Focus	\$16,000	\$29,500	\$23,250	Non-US

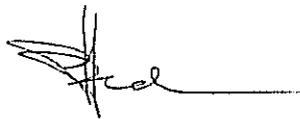
The Cherokee Liberty Sport and the Chevrolet Trail Blazer are quite expensive (\$30,500 and \$36,500 respectively). The Cherokee is furthermore not of US origin.

The Ford Focus is the cheapest vehicle, but is not of US origin and is considered too small for the needs of the project.

The Ford Mondeo is sufficient for the needs of the project and is approximately \$400 cheaper than the Chevrolet Malibu, but it is not of US origin.

Finally the Chevrolet is of US origin and is reasonably priced. The dealer has the necessary vehicles in bond, so delivery could be made in approximately three weeks.

Sincerely,



Peder Pedersen

CC: Sandy Sakran, Acquisition Specialist, USAID West Bank Gaza
Rasem Kamal, Cognizant Technical Officer, USAID West Bank Gaza
Nabil Isifan, Acting Chief of Party NETHAM
Robert W. Page Jr., Principal in Charge, DPK Consulting

Attachment II



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 6/2006
Name: Dallah Rent A Car	Purchase Order Date: 29/08/06
Address: P.O. Box 21372 Jerusalem	Ship to: Rule of Law – Justice & Enforcement Project Al-Whaidi Building, 1 st floor, Ramallah Tel: 02-2974516/7, Fax: 02-2972230
Telephone: 02-656 4150	US Government Prime Contract: USAID RULE OF LAW IQC, # DFD-I-00-04-00173-00.
Contact: Sami Dahoud	Task Order: 294-2005-022.

No.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			420.75
TOTAL				\$2,970.75

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ and excluding VAT, We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
_____ Name: Sami Dahoud	_____ Name: [Signature]
Title: [Signature]	Title:

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 4/2006
Name: Dallah Rent A Car	Purchase Order Date: 29/05/06
Address: P.O. Box 21372 Jerusalem	Ship to: Rule of Law – Justice & Enforcement Project Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-656 4150	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Sami Dahoud	US Government Prime Contract: USAID RULE OF LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

No.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			420.75
TOTAL				\$2,970.75

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ and excluding VAT, We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
<hr/> Name: <i>Sami Dahoud</i> Title:	<hr/> Name: <i>[Signature]</i> Title:

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 2/2006
Name: Dallah Rent A Car	Purchase Order Date: 28/02/06
Address: P.O. Box 21372	Ship to: Rule of Law – Justice & Enforcement Project
Jerusalem	Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-656 4150	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Sami Dahoud	US Government Prime Contract: USAID RULE OF LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

NO.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			420.75
TOTAL				\$2,970.75

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ and excluding VAT, We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
Name: Sami Dahoud	Name:
Title:	Title:

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 2/2005
Name: Dallah Rent A Car	Purchase Order Date: 05/12/05
Address: P.O. Box 21372 Jerusalem	Ship to: Rule of Law – Justice & Enforcement Project Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-656 4150	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Sami Dahoud	US Government Prime Contract: USAID RULE OF LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

NO.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			420.75
			TOTAL	\$2,970.75

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ and excluding VAT, We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
Name: Sami Dahoud	Name:
Title:	Title:

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 7/2006
Name: Shkokani Rent A Car	Purchase Order Date: 28/10/06
Address: Nablus Road Ramallah	Ship to: Rule of Law – Justice & Enforcement Project Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-240 6746	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Mazen Shkoukani	US Government Prime Contract: USAID RULE OF LAW IQC, # DFD-1-00-04-00173-00.
	Task Order: 294-2005-022.

NO.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			\$369.75
TOTAL				\$2,919.75

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
Name: <u>Shkoukani, M. A. (Mazen)</u> Title: _____	Name: _____ Title: _____

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



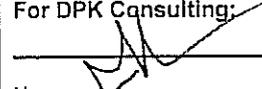
USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 5/2006
Name: Shkokani Rent A Car	Purchase Order Date: 28/07/06
Address: Nablus Road	Ship to: Rule of Law – Justice & Enforcement Project
Ramallah	Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-240 6746	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Mazen Shkoukani	US Government Prime Contract: USAID RULE OF
	LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

No.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			\$369.75
TOTAL				\$2,919.75

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
 Name: <u>Shkoukani, M. H. Rent A Car L. CO.</u> Title: _____	 Name: _____ Title: _____

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 3/2006
Name: Shkokani Rent A Car	Purchase Order Date: 28/04/06
Address: Nablus Road Ramallah	Ship to: Rule of Law – Justice & Enforcement Project Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-240 6746	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Mazen Shkoukani	US Government Prime Contract: USAID RULE OF LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

NO.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			\$408
TOTAL				\$2,958

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
 Name: _____ Title: _____	 Name: _____ Title: _____

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



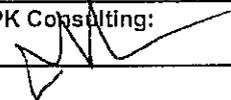
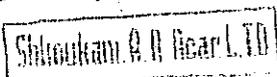
USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 1/2006
Name: Shkokani Rent A Car	Purchase Order Date: 28/01/06
Address: Nablus Road	Ship to: Rule of Law – Justice & Enforcement Project
Ramallah	Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-240 6746	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Mazen Shkoukani	US Government Prime Contract: USAID RULE OF
	LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

No.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle Chevrolet Optra	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			\$408
TOTAL				\$2,958

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vehicle is Made in USA and shipped from USA. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor: <hr/> Name: Title:	For DPK Consulting:  <hr/> Name: Title:
	

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.



USAID
FROM THE AMERICAN PEOPLE

Purchase Order

VENDOR:	Purchase Order No.: RAC 1/2005
Name: Shkokani Rent A Car	Purchase Order Date: 28/10/05
Address: Nablus Road	Ship to: Rule of Law – Justice & Enforcement Project
Ramallah	Al-Whaidi Building, 1 st floor, Ramallah
Telephone: 02-240 6746	Tel: 02-2974516/7, Fax: 02-2972230
Contact: Mazen Shkokani	US Government Prime Contract: USAID RULE OF
	LAW IQC, # DFD-I-00-04-00173-00.
	Task Order: 294-2005-022.

No.	DESCRIPTION	QTY. MONTHS	UNIT PRICE	TOTAL PRICE
1	Medium Size Vehicle	3	\$850	\$2,550
	Sub Total			\$2,550
	VAT			0
			TOTAL	\$2,550

TERMS AND CONDITIONS	
Payment terms	Payment after receiving the vehicle and on a monthly basis against original tax invoice
Delivery Date	Immediately
Penalty	US\$ 50 for each day delay after the delivery date.
Bill to	Rule of Law – Justice & Enforcement / WBG. Al-whaidi Bldg. 1 st floor, Ramallah Fax: 02-2972230.
Other Terms	<ol style="list-style-type: none"> All prices in US\$ and excluding VAT, We may cancel this order in whole or in part if vendor does not deliver the goods or perform the services in full conformance with the warranties within the time specified in this order. Our maximum liability to vendor arising out of this order, regardless of the basis of liability or the form of action, will not exceed the total price stated in this order. Vendor warrants that (i) all articles furnished shall be new and free from defect in workmanship and materials, (ii) Upon acceptance of the goods, vendor shall transfer all manufacturers' and vendor warranties for work products and equipment delivered under this agreement to DPK, or to the party designated by DPK.

For Vendor:	For DPK Consulting:
Name:	Name:
Title:	Title:

Please sign, stamp and return as acceptance to fax 02-2972230 by the end of the next working day of receiving the P.O to proceed the procurement of the above mentioned items.

Attachment III

Baher Zamamiri

From: Peder Pedersen [ppedersen@dpkconsulting.com]
Sent: Thursday, September 07, 2006 12:44 AM
To: Baher Zamamiri
Cc: nisifan@netham.net; Rebecca Silva
Subject: RE: Car Rental

Baher,

Excellent question!
I know of no regulation that forces us to buy the cars after a certain period.

We started renting to accommodate a rapid start-up and we then moved to a lease/buy analysis that resulted in a decision to buy two cars and rent one (as far as I remember). I believe that because of the situation we cancelled the procurement and continued to rent. I think that we should now do a memo to file documenting that we continue to follow the situation and that we have concluded that under the current circumstances we have continued to rent because of the uncertainty about project funding and activities because it is a more flexible and economical way in the short term. We should in the memo to file commit ourselves to a new buy/lease analysis once the project starts back up so that we continue to provide the project with transportation means in the most economically responsible way.

If a new lease/buy analysis shows that we should buy, then we need to vet that with Nancy

I hope this answers your question, if not please do not hesitate to be back in touch.

Best Regards

Peder Pedersen

PS got your request for files to complete your files. The Personnel section and I will search of files and get you everything that we have.

Peder Nygaard Pedersen
Senior Program Implementation Officer
DPK Consulting
605 Market Street, Suite 800
San Francisco, CA 94105
P: +1 415 284 7695
F: +1 415 495 7553
M: ppedersen@dpkconsulting.com

From: Baher Zamamiri [mailto:bazamamiri@netham.net]
Sent: Wednesday, September 06, 2006 2:51 AM
To: Rebecca Silva; Peder Pedersen
Cc: Nabil Isifan - Netham
Subject: Car Rental

Dear Rebecca and Peder,

Today morning I had a meeting with Nabil and he raised a valid point of the rented cars. As you know we have been renting 2 cars from the beginning of the project. I have two questions in this regard:

- 1- Is there a time limit for renting cars for the project?
- 2- Is there a need for a special approval from USAID? And if yes, do we have such approval?

I know that we can rent cars and if its for more than six month we have to comply with the source, origin and nationality requirement, which we do. I just wanted to make sure that we are doing the right thing and if not to act on it.

11/21/2006

Regards,

Baher Zamamiri

Appendix -B-: Recipient's Comments

Amendment to the first response after the exit meeting

June 14, 2007

Michael F. Orfaly
Partner
PriceWaterhouseCoopers, Ramallah

Subject: Amending DPK's Audit Findings

Dear Mr. Orfaly:

DPK/NETHAM would like to further clarify our response in the areas questioned in the audit in the following areas

- Non-compliance with the source and origin rules for leased cars;
- 13th and 14th month benefit;
- Segregation of duties.

We have provided these responses to be annexed as an amendment to our initial responses rather than to replace them.

We hope that our amended response clarifies these unresolved issues.

Best Regards,

Nabil Isifan
Acting COP



Attachments:
Attachment 1 – Vehicle Lease Responses to BAFO Queries
Attachment 2 – Employee Contract Fringe Benefits
Attachment 3 – Correspondence with Labor Attorney

Issue: Non Compliance with the Source and Origin Rules - Leased Cars

DPK/NETHAM followed US government and DPK procurement procedures to obtain U.S. origin leased vehicles and took steps to ensure that the car that we ordered met source and origin requirements. During the course of the audit, it was discovered that the vendor misrepresented the source and origin to DPK/NETHAM. Corrective action was taken immediately by the project to obtain vehicles of U.S. origin upon this discovery. We refer the contracting office to the Original Management Response on this issue for the details surrounding this transaction and supporting documentation.

We note that correspondence between DPK and USAID providing background as to the lease versus purchase option provided to the auditors at the closing meeting was not included in the draft audit report. **Attachment 1** is a copy of the relevant sections from that letter which should be a part of the final audit report as further background on this issue. A complete copy is available on file if USAID requires it.

Issue: Thirteen and Fourteen Months' Salary

We have provided additional information on this issue as requested during the exit meeting. The thirteenth and fourteenth month allowances were established consistent with:

- The terms of DPK's task order and IQC contract with USAID
- The cost proposal submitted for this task order
- DPK's internal policies and procedures for establishing local fringe benefits including seeking local legal advice
- Survey of other companies with USAID projects on the appropriate fringe benefits to offer to be consistent with other USAID contractors

DPK's task order and IQC contract with USAID

In accordance with AIDAR 752.7007(a) "Personnel Compensation", incorporated by reference in Section I.1 of the master IQC contract governing this task order, DPK established direct compensation packages for its personnel "in accordance with the Contractor's established policies, procedures, and practices, and the cost principles applicable to this contract."

In Part I Section B.2, "The Price Schedule" of the task order, it states that "the annual salary of an individual is his basic compensation exclusive of fringe benefits, travel incentives, housing allowances, differentials, or other bonuses." The thirteenth and fourteenth month allowances are listed in the employee contracts (**Attachment 2**) as "Fringe Benefits" and were clearly established by DPK as part of the fringe benefits package (not base salary).

Cost Proposal

In the cost proposal narrative, we stated that “DPK will provide fringe benefits to CCN employees in accordance with local practice. We have estimated the fringe benefit rate to be 30 percent of base salary. We will bill actual fringe benefit costs.”

The project’s actions have been consistent with this statement. Actual fringe benefits payments for the period October 1, 2005 – May 30, 2007 for local fringe benefits totaled \$158,000, or 24 percent of local salary. We expect that the total actual fringe benefits paid over the project life will approximate the 30 percent budgeted.

DPK Internal Policies and Procedures

DPK follows a policy of establishing fringe benefits in accordance with local law and requirements. In the case of West Bank and Gaza, the laws are not totally clear so we followed our practice of hiring a local labor lawyer. We contracted with a recommended labor attorney to advise us on the benefits required under local labor law and what general local practice is. The fringe benefits that we decided to offer were less than those included in his findings of what is permitted under local labor law and practice (see **Attachment 3**). The approach of contracting a local lawyer is consistent with our internal procedures when the law is not totally clear. As outlined below, we also survey other projects to determine what benefits they provide.

Survey of Other Projects

DPK consulted with other USAID projects and private companies (see **Table 2.1**, below). The fringe benefits that they offer range between 28% - 31% of total salary although the components of the fringe benefits may vary somewhat. The practice of other US government contractors with whom we consulted follows.

Table 2.1 – Benefits Provided by USAID Contractors and DPK Consulting

Description of Benefits Allowable Under Labor Law (includes % of salary)	DPK/ NETHAM	CARE INT’L / USAID Contracts	DAI/ USAID Contracts
Total Benefits as % of Salary*	28.9%	30.6%	27.9%
Severance Pay – One month per year worked (8.3%)	YES	YES	YES
Transportation Allowance (% variable)	NO	\$50/month	NO
Provident Fund (% variable)	NO	YES, 10%	YES, 15.58%
Thirteenth Salary Allowance (8.3%)	YES	YES	NO

Description of Benefits Allowable Under Labor Law (includes % of salary)	DPK/NETHAM	CARE INT'L/ USAID Contracts	DAI/ USAID Contracts
Fourteenth Salary Allowance (8.3%)	YES	NO	NO
Fifteenth Salary Allowance (8.3%)	NO	NO	NO
Life insurance	NO	NO	NO
Health insurance for employee and all dependents (% variable)	YES, Up to \$2,000 per employee, % varies	YES, no limit, all family members covered	YES, \$350/year per family member
Work Accident Insurance Coverage (% variable)	YES	Not known	Not known

The process that we followed resulted in our decision to provide the 13th and 14th month allowances. At the same time we did not offer the provident fund which other contractors offer. As a firm, we are comfortable with the 13th and 14th month approach as it is consistent with practices in other countries that we have USAID contracts so found it more congruent with our normal internal policies.

We deduce from the auditor's response, that an issue for the auditor is why the 13th and 14th month were not classified as salary versus fringe benefits. We outlined in our Original Management Response already incorporated in the audit report our interpretation of Palestinian Labor Law, which was supported by the opinion of our labor lawyer and led to classification of these expenses as fringe benefits.

Issue: Segregation of Duties

Duties for the DPK/Natham project are appropriately segregated given the volume of financial transactions and additional internal control procedures established to mitigate the risk arising from our ability to employ only one person in the accounting department for the following reasons:

- Petty cash funds are managed in the Gaza and Ramallah Offices by professional staff other than the Finance Director.
- Payments are prepared and recorded by the Finance Director, who does not have the authority to sign checks.
- Payments and financial reports are reviewed and approved by the Acting COP who has an Accounting Degree and lengthy experience in financial management.
- Transaction detail, bank reconciliations, supporting documentation, and USAID vouchers are reviewed monthly by the San Francisco home office.

The project has not hired any additional staff based on USAID's request due to the project's suspended status. We agree that an additional accountant should be considered upon lifting the project suspension.

Attachment 1



Principals
WILLIAM E. DAVIS
ROBERT W. PAGE JR

Sandy Sakran
Office of Acquisition and Assistance
USAID/WBG

September 28, 2005

RE: TPR 294-2005-022 Technical/Cost Clarifications

Dear Ms. Sakran:

DPK Consulting (DPK) has received and responded to the questions related to our West Bank & Gaza Rule of Law Program – Justice and Enforcement proposal raised in your email dated September 27, 2005. The responses follow and are incorporated into a revised budget that we have submitted with this letter.

Technical comments:

1. Given Mr. Salameh's limited experience in the judicial reform/enforcement field, USAID requests that DPK propose a different candidate for the "Enforcement Process and Procedures Manager" position. In the final document Award this position will be identified as "TBD" and DPK will be asked to propose a suitable candidate within thirty days of contract award.

We agree to propose a different candidate for the "Enforcement Process and Procedures Manager" position and have indicated the position as TBD in our revised budget. We will conduct an open recruitment and propose a suitable candidate within 30 days of contract award.

2. Illustrative task on "Support for broader efforts for public administration/civil service reform to rationalize the justice sector bureaucracy, and address staffing needs within the sector."

DPK's response did not address USAID's concerns. Both ideas raised by the DPK (creation of a separate civil service system, or strengthening the current civil service system that applies to all government employees) are not practical. The first idea is politically not feasible. The second one is too broad, and is not within the scope of this program. DPK is requested to revisit this section and address it once more.

We understand the political constraints that make our proposed activities difficult to implement at this time, and in the following have revised the section to reflect that which we think is feasible and within the scope of the project:

The DPK team will work with the MOJ and other counterparts to carry out rationality assessments within select justice institutions, to be determined with USAID, which will help in assessing staffing needs and right-sizing these institutions and streamlining their workforce. This effort will include analyzing distribution and roles of personnel to increase effectiveness and efficiency of individuals as well as their service delivery. DPK has some experience in this regard in our work in the area of human resources management with the Attorney General's office under the previous rule of law project in West Bank and Gaza. The initial focus will be on the judiciary, including court personnel such as court administrators, processors, and others. Efforts to rationalize the justice sector bureaucracy will be supported by a number of our other proposed interventions



Principals
WILLIAM E. DAVIS
ROBERT W. PAGE JR

St. Louis, MO – Tel Aviv, Israel estimated at \$3,400
Denver, CO – Tel Aviv, Israel estimated at \$3,400
Washington DC – Tel Aviv estimated at \$3,200

2. Local Travel: If the rental period is over 6 months, USAID's preferred method is purchasing vehicles in lieu of lease. Please provide a lease vs. purchase analysis that resulted in DPK's decision for long term vehicle rental.

DPK included the long-term vehicle rental option based on the experience from the previous project. We indicated in our narrative that we would conduct a full purchase/lease analysis and consult with USAID before deciding on transport options. We have updated the budget to reflect USAID preference for the purchase option, but we would like to reserve the ability to conduct a full lease versus buy analysis before proceeding.

Other Direct Costs / Project Office Administration:

1. Security: Proposed rate of \$3,000 per month is excessive when compared to other USAID programs. Please revise.

We have lowered the proposed rate as requested to \$2,400. The security would include security for the project offices 24/7 and for the project vehicles overnight.

We are prepared to answer any further questions that you may have.

Sincerely,

Robert W. Page
Chief Financial Officer

EMPLOYMENT AGREEMENT

DPK Consulting (DPK) and [REDACTED] (Employee) hereby enter into an employment agreement (Agreement) for the USAID-funded Rule of Law Program – Justice and Enforcement in West Bank and Gaza (Project) being implemented by DPK, governed by the following clauses:

1. TERMS OF EMPLOYMENT

This Agreement will be effective starting from October 16, 2005. The first three months are considered probationary and performance will be reviewed at the end of that time. This Agreement does not constitute an offer of employment in the DPK home office in San Francisco, California, or on any other DPK-implemented project.

2. DUTIES

Employee will serve as the MOJ Institutional Development Manager and will carry out duties designed to meet the objectives of the Project. Pursuant to DPK's contract with USAID and reporting to the DPK Chief of Party and to the DPK Home Office, Employee will carry out duties in accordance with attached job description.

3. COMPENSATION

Employee will be paid at a base yearly rate of \$45,500 in US Dollars, paid at a monthly rate of \$3,791.67, in US Dollars. For months worked less than full time, Employee will be compensated at a pro-rated rate based on a 21.67-day work month. At the completion of one year of service, Employee will be eligible for consideration for a salary adjustment based on performance. The rate and currency is subject to USAID approval.

This is a professional position and therefore is classified as an exempt position under which there is no overtime or compensatory time compensation. The standard work week is 40 hours over 5 days. The requirements of the position may require additional work outside of these limits, without additional compensation. Weekend days are Friday and Saturday.

4. TAXES

DPK will withhold income tax from payments to Employee in accordance with all applicable local law requirements.

5. FRINGE BENEFITS

Employee will be entitled to annual employee benefits as follows:

A. Workers
Compensation
Insurance:

Staff Work Accident Insurance Coverage as required by local law.

B. Medical Coverage:

DPK shall pay Employee a maximum of US \$2,000 per year for health insurance costs and health care costs. Payment will be made upon presentation of appropriate receipts. This amount is a ceiling, and does not carry over from year to year and is only payable for qualifying health care expenses.

- C. Severance Pay: 1 month's salary per year of work completed. Severance pay shall accrue annually for the duration of the employment and shall be paid to Employee in a single lump sum upon termination or expiration of this Agreement. The basis for the salary will be the monthly salary of the month immediately preceding the separation.
- D. Semi-annual Bonus: 13th and 14th Month Annual Bonus. One month's salary will be paid on each semi-annual anniversary of the start date with the project. Semi-annual bonuses will not be prorated, except during project close-out. To qualify for the bonus, Employee must have worked the entire previous 6-month period. The basis for the bonus will be the monthly salary of the month immediately preceding the semi-annual anniversary.
- E. Sick/vacation leave: 14 days of vacation leave and 14 days of sick leave in accordance with applicable laws.
- F. Holidays: Holidays as Set by the Chief of Party and DPK in compliance with applicable laws and USAID requirements. See attached holiday schedule.

From: ameed anani [ameedanani@yahoo.com]
Sent: Wednesday, October 19, 2005 5:24 AM
To: nabil mustafa
Subject: Re: Fwd: Employee contract
Dear Mr. Nabil Isifan,

Subject: Employment Agreement / DPK

With reference to the above-mentioned subject and to your consultation, and by referring to the Employment Agreement, we would like to state the following:-

1. That the Labor Law implemented in Palestine is the Labor Law No. (7), for the year (2000).
2. As regards to article (1):
 - a. It is necessary to set up the commencement date of the Agreement validity.
 - b. Shall not correspond with the law, if parties herein shall have the right to terminate the Agreement solely upon their discretion, but through its articles or pursuant to the legal provisions (articles 40-43). Otherwise, the party desirous to terminate the Agreement outside the law framework shall be subject to legal obligations, out of which are the arbitrary layoff and indemnity.
3. As regards to article No.(3):
 - a. Shall not correspond with the law having the employee worked for more than hours determined in the agreement or as per the labor law (45 hour weekly), without being paid for overtime working hours for all those hours that exceed the mentioned in the contract or as per the law. It is also necessary to indicate to the personnel grading system, whereas the upper grade personnel do not get overtime working hours because their work nature requires keeping them selves in work more than the hours determined in the contract or as per the law.
 - b. Shall not correspond with the law not granting the employee holydays in exchange of those he worked, or not getting indemnity in cash equal to (150%):
4. Regarding the article No.(4):

Income Tax calculation shall be made as per the segment to which the employee is subject pursuant to his/her own income.
5. Regarding article No.(5):

An employee may be granted the following benefits:

 - a. A one-month salary and up to three additional months for every year, provided the one year shall be consisting of (13-15) months.
 - b. Transportation.
 - c. End of Service Remuneration.

- d. Provident Fund
 - e. Health Insurance covering employee, his spouse and his dependant children.
 - f. Staff Work Accident Insurance Coverage.
 - g. Personal use of employer's cars beyond work schedule.
6. Regarding the article (9) , paragraph (5):
If an employee is granted rights not provided herein, then he shall not be prevented from these he deserves and shall claims for.
7. Regarding the article (9), paragraph (8):
Resorting to arbitration clause may be possibly inserted, but, however, we do not recommend since arbitration in Palestine is still merging and lacks competent arbitrators with high level of expertise.
8. The Employment Agreement should include an article about LEAVES such as :
- a- Annual Leaves, for 14 working days at least .Some NGOs gives one plus day for each year of service accrued from the first day of service.
 - b- Sick Leave for, 14 working days at least.
 - c- Holiday Leave, as announced by the authorities.
 - d- Maternity Leave, for 70 working days

With utmost regards and respect,,,

Dated: 19/10/2005

House of Law & Advocacy
Advocate: Ameen Anani

nabil mustafa <isifan@yahoo.com> wrote:

Dear Anani,

I am resending this in the new e mails, please confirm.

Regards,
nabil

Nabil Isifan
Ramallah, P.O.Box (4161)
West Bank, Palestine
Tel: 00972 59 657 827

Yahoo! Music Unlimited - Access over 1 million songs. Try it free. Date: Sun, 16 Oct 2005
09:11:35 -0700 (PDT)
From: nabil mustafa <isifan@yahoo.com>
Subject: Employee contract

To: amani@houseoflaw.net.ps, rkormos@dpkconsulting.com,
ppedersen@dpkconsulting.com, dpkrpage@aol.com

Daer Ameen,

I am attaching a standard form employment agreement for Host Country Nationals on DPK Projects. As local labor and law requirements vary, we often need you to review the form and make the necessary edits to make sure the agreement complies with applicable local law requirements.

I am copying Remy N. Kormos the General Counsel - DPK Consulting so you can finalize this issue with him.

If you need help please contact me, we need this job ASAP.

Thanks,

Nabil isifan

Nabil Isifan
Ramallah, P.O.Box (4161)
West Bank, Palestine
Tel: 00972 59 657 827

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