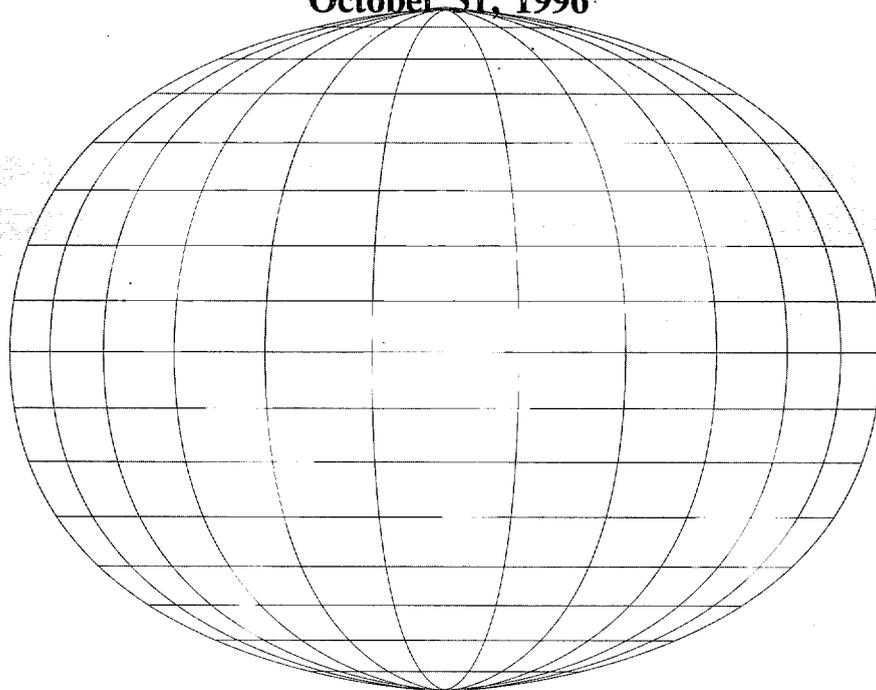


Report of Audit

**Report on the Application of
Agreed-Upon Procedures to Evaluate
Claims Submitted to USAID/West Bank & Gaza
By the El Khoudary Company
(Under Contract No. 294-0006-C-00-4149)**

**Regional Inspector General for Audit
Cairo, Egypt**

**Report No. 6-294-97-04-N
October 31, 1996**



**FINANCIAL INFORMATION CONTAINED IN THIS
REPORT MAY BE PRIVILEGED. THE RESTRICTION
OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE
ANY INFORMATION IS RELEASED TO THE PUBLIC.**

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



**UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT**

CAIRO, EGYPT

October 31, 1996

MEMORANDUM

TO : DIRECTOR USAID/West Bank and Gaza, Christopher D. Crowley

FROM: RIG/A/C, Lou Mundy *Lou Mundy*

SUBJECT: Report on the Application of Agreed-Upon Procedures to Evaluate Claims Submitted to USAID/West Bank & Gaza By the El Khoudary Company (Under Contract No. 294-0006-C-00-4149)

The attached report, transmitted on October 8, 1996, by Shawki & Company, presents the results of the application of agreed-upon procedures to assist in the evaluation of claims submitted by the El Khoudary Company (under fixed price contract number 294-0006-C-00-4149) for work performed on the Gaza Housing Project (No. 294-0006). The El Khoudary Company is a construction contractor operating in Gaza. The purpose of the contract was to build apartment buildings in the Gaza strip. The claims are based in large part on border closings which caused increased costs not anticipated in the original work proposals.

We engaged Shawki & Company to perform agreed-upon procedures on the El Khoudary Company claim of \$157,550 for non-design claims. The purpose of these procedures was to determine the validity of the claims which the contractor had made against USAID. In performing these procedures, it was agreed that Shawki & Company would not review any claims for design changes (such claims were reviewed by an engineer working independently). These procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, and accordingly the attached report does not express any opinion on contract expenditures.

The report recommends that of the \$163,417 in non-design claims tested (a figure slightly higher than the amount originally claimed due to additional overhead costs identified by

U.S. Mailing Address
USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909
Fax # (202) 355-4318

#106 Kasr El Aini St.,
Cairo Center Building,
Garden City, Cairo, Egypt

Shawki & Company), \$134,860 be considered for payment. Claims recommended for payment relate to unanticipated increases in the cost of materials and to additional overhead costs due to border closure.

The following recommendation is included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/West Bank and Gaza consider for payment to the El Khoudary Company non-design claims totaling \$134,860.

As a result of the work done by Shawki & Company and analyses performed by the Mission itself, the Mission was able to arrive at a negotiated settlement of \$150,000 with the El Khoudary Company (for non-design claims), before issuance of this final report. Based on the Mission's management decision and final action in this regard, Recommendation No. 1 is closed upon issuance of this report.

Thank you for the cooperation and assistance extended to the staff on this engagement.

Attachment: a/s

2

Shawki & Co



REVIEW OF EL KHOUDARY COMPANY CLAIMS

By Shawki & Co.

October 8, 1996

**Deloitte Touche
Tohmatsu
International**

3

Shawki & Co



Members of the Egyptian
Society of Accountants and
Auditors

153 Mohamed Farid St.
Bank Misr Tower
P. O. Box 2095
Cairo 11511, Egypt
Telephone: (02) 391.7299
(02) 392.6000
Facsimile: (02) 393.9430

October 8, 1996

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for International Development
Cairo, Egypt

Dear Mr. Mundy:

This report presents the results of our review of \$157,550, of a total of \$353,792 in claims submitted by El Khoudary Engineering & Contracting Company, under fixed price contract number 294-0006-C-00-4149 for work performed on the Rapid Start Gaza Housing Project. The work was performed by Shawki & Co. at the request of the USAID West Bank and Gaza Mission. We determined the validity of the claims by applying the standards in OMB Circular A-122, which requires that all costs are allowable, allocable, reasonable and properly supported.

INTRODUCTION

AU Section 622 of the Codification of Statements on Auditing Standards allows accountants to accept engagements in which the scope of the engagement is limited to reviewing one or more specified elements, accounts, or items of a financial statement provided that the procedures are agreed upon by the parties involved and the distribution of the report is restricted to the named parties. Shawki & Co. entered into an agreement with USAID to review claims made against USAID, by El Khoudary Engineering & Contracting (El Khoudary Company), a construction contractor operating in Gaza. The following schedule shows the three claims made against USAID.

<u>Claim No.</u>	<u>Description</u>	<u>Amount</u>	<u>Tested</u>
1	Design changes without adequate compensation	\$196,242	
2	Unanticipated material cost increases	109,550	\$104,502
3	Special costs due to border closure	48,000	58,915
TOTAL		\$353,792	\$163,417

**Deloitte Touche
Tohmatsu
International**

h

SCOPE OF THE WORK

Shawki & Co. agreed with USAID that such claims would be reviewed to determine if the claims were allowable, allocable, reasonable and properly supported. It was agreed that Shawki & Co. auditors would not review any claims for design changes, unless asked to do so. This would be done by an engineer working independently with USAID. Specifically, Shawki & Co. would review at least 50 percent of the transactions and/or 80 percent of the costs claimed by El Khoudary Company for material cost increases. For the claims on costs due to border closure, all costs associated with the claim would be reviewed and a determination made as to whether such costs were allowable, allocable, reasonable and properly supported.

When conducting the audit work, Shawki & Co. auditors would consider as primary evidence when making their evaluation such evidence as "invoices" and "original books of record". Other evidence that would be taken into account, but to a lesser extent, would be price quotes from suppliers, studies conducted by the Palestinian Contractors Union and pertinent comments from company representatives.

RESULTS OF WORK

Shawki & Co. did not review any claims for design changes, but focused their attention on the two remaining claims. For the unanticipated material cost increase per claim number 2 in the amount of \$109,550, Shawki & Co. auditors reviewed 52 percent of the transactions representing 89 percent of the total dollar amount to determine if the claim was allowable, allocable, reasonable and properly supported. We are recommending that consideration only be given to \$77,832 of the total amount tested of \$104,502.

For the claim number 3 (special costs due to border closures) in the amount of \$48,000, Shawki & Co. auditors reviewed all the costs to determine if the claim was allowable, allocable, reasonable and properly supported. We are recommending that the amount of the claim be increased to \$57,028 because the contractor omitted costs that appear to be eligible for the claim.

In conclusion, for claim numbers 2 and 3 we tested \$163,417 in costs and recommend that of that amount \$134,860 be considered for payment.

This report is intended solely for the use of specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Shawki & Co.



October 8, 1996.



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the Office of the Regional Inspector General and the United States Agency for International Development (USAID) West Bank and Gaza Mission, solely to assist in the evaluation of claims submitted by El Khoudary Engineering & Contracting Company (El Khoudary Company) under fixed price contract number 294-0006-C-00-4149 for work performed on the Rapid Start Gaza Housing Project. At the request of the USAID West Bank and Gaza Mission, Shawki & Co. determined the validity of the claims by applying standards in Office of Management and Budget (OMB) Circular A-122, which requires that all costs are allowable, allocable, reasonable and properly supported. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

From a discussion with an El Khoudary Company representative and a review of some documents it became evident, that contract costs and revenues were not accounted for in the manner that would comply with standards established by accounting and auditing organizations in the United States. In some cases invoices were not available nor had revenues or expenses been entered into a double entry bookkeeping system. According to the El Khoudary Company representative it was not common practice in this part of the world to provide invoices. Further, record keeping of the types referred to by Shawki & Co. auditors was not commonly done by the companies in Gaza. Due to the limited availability of primary evidence to support costs, Shawki & Co. reviewed other evidence provided by El Khoudary Company supporting the claims. The procedures and the associated findings for the two claims are the following:

1. *Material Cost Increase* - El Khoudary Company claimed \$ 109,550 in material cost increases between the period May 9, 1995 to February 26, 1996. Prior to gathering and reviewing evidence provided by El Khoudary Company, a computation for the figures used to arrive at the total amount was made by us to determine if the quantities used were correctly extended and added. Errors in multiplication and addition, amounting to \$7,866 were identified by Shawki & Co. auditors bringing the total value of the claim to \$117,416.

As was mentioned earlier, often, El Khoudary Company was not able to provide "primary" evidence that supported material price increases. "Primary" evidence being an invoice that showed the price of the item before escalation, and another invoice that showed the price of the item, at a later time, when the purchase was made. Consequently, after selecting the items for our sample, alternative methods were used to validate the increases in the cost of the materials. Attachment I is a schedule that shows the transactions selected, a description of the item, quantity claimed by El Khoudary Company and any differences identified by Shawki & Co. between the amount of the claim and that which we considered to be correct based on the information provided. The schedule also shows the type of evidence provided to support the claim made by El Khoudary Company. For purposes of our report, evidence supporting the claims has been broken out into the following categories:

<u>Category</u>	<u>Description of Evidence</u>
I	Invoices showing the price of the material before escalation and at the time of purchase and/or entries in books of record before escalation and at the time of purchase.
II	Amounts shown in the proposal and/or documented quotes from the suppliers of the material before escalation and at the time of purchase.
III	Quotes taken from studies such as the Palestinian Contractors Union, for the periods covering the life of the contract.
IV	Combination of evidence, one of which would partially satisfy the evidence requirements in one of the above categories.
V	No documentation available to support the expense.

Of equal concern, was that the quantities claimed as having increased in price were the correct quantities. The company representative stated that the quantities claimed were based on the progress that had been made (at the time of the claim) and shown in the progress report sent to the Chief Manager of Construction (CMC). For this reason, we reviewed and recorded the price shown in the original proposal for the transactions selected by us and compared such price and quantities to that shown in the claims. It was generally not possible to make such a direct comparison because the price of the items shown in the proposal included material, labor, profit and overhead. We asked the El Khoudary Company representative to identify, for many of the transactions, the percent of each of the components. By breaking out the four components we would be able to determine (1) if the quantities included in the claim were reasonable and (2) if the price claimed for the items was in line with that which was shown in the proposal. El Khoudary Company did not have

7

any information that showed how the value of the items in the proposal was computed, therefore, the accuracy of such percentages would have to be verified by the engineering consultant.

Using the procedures described, we reviewed \$104,502 or 52.21 percent of the transactions representing 89 percent of the total dollar amount to determine if the claim was allowable, allocable, reasonable and properly supported. After performing the sampling procedure, we determined that 15 percent of the sample selected was not eligible, due to incorrect price quotes, to be claimed or an amount of \$16,230, leaving a balance of \$88,272 (see attachment I).

Since some of the material price increases were supported by a lower level of evidence (Category IV and V) we are recommending that consideration only be given to transactions supported by Category I, II and III evidence in the amount of \$77,832.

2. *Special Costs Due to Closure* - El Khoudary Company claimed \$48,000 in additional costs incurred because the life of the contract was extended an additional six months due to the closure of the borders to Gaza by Israel.

According to the El Khoudary Company representative it was not possible to get timely delivery of materials when the borders were closed and for this reason the contract period was extended for about a six month period of time. The El Khoudary Company representative said that when he initially prepared the claim the contract had only been extended for five months and when the claim was again submitted, after being withdrawn, he forgot to include the sixth month. The El Khoudary Company representative said that a consultant compiled the claim using a 10 percent overhead rate, multiplying the percentage times the value of the contract and extending this figure over a five month period of time.

As was the case on the material cost increases, our primary objective on this claim was to determine if the costs incurred over the six month period of time were allowable, allocable, reasonable and properly supported. Consequently, El Khoudary Company was required to provide us with a detailed schedule of costs that were incurred over the six month extension (see attachment II). At the time El Khoudary Company was working on the Rapid Start Gaza Housing project the company was also working on another seven construction projects, with a total value of \$3,898,000, including the USAID project. Based on this information we allocated the overhead costs over all eight of the on-going projects at the time of the six months extension. Unfortunately, it was not possible, during the short period of time, to determine if the information provided concerning the other activities of the contractor during this period was correct. The schedule of costs provided to us showed that El Khoudary Company, over the six month period, had incurred \$58,915 in costs, which now becomes the new basis for the claim.

Again, as on the prior claim, the same procedures on this claim were applied relative to evidence. We determined that only three categories of evidence would be applicable, as follows:

<u>Category</u>	<u>Description of Evidence</u>
I	Invoices, receipts or checks that showed the price of the activity.
II	Bank statements that showed the expenses for the activity had been incurred.
III	No documentation available to support the expense.

After applying the procedures described we determined that the actual value of the claim should be a figure slightly higher than the \$48,000 originally claimed. The amount should be \$58,915, which is supported by the following categories of evidence:

Category	I	\$57,028
Category	II	0
Category	III	1,887
Total		<u><u>\$58,915</u></u>

However, since some of the overhead costs were not supported we are recommending that consideration only be given to those expenses that are supported by Category I and II evidence in the amount of \$57,028.

* * * * *

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Shawki & Co.

Shawki & Co.

September 17, 1996.

EL KHIODARY CONTRACTING
SCHEDULE OF MATERIAL COST
INCREASES BY TRANSACTION
PERIOD MAY 95 TO FEB 96

ITEM /DESCRIPTION	CLAIMED QUANTITY	PRICE IN DOLLARS		ESCALATION	DOLLAR VALUE	EVIDENCE CATEGORY
		BEFORE	AFTER			
<u>DIVISION 3 CONCRETE</u>						
STEEL REINFORCEMENT (2.03-2.46)	114,480 KG	0.466	0.589	0.123	14,081.04	III
CONCRETE 25MPA (3.04-3.12)(3.05, 3.08, 3.09, 3.10, 3.11, 3.12)	209.85M ³	48.33	60.00	11.67	2,448.95	I
<u>DIVISION 4 MASONARY (1.02)</u>						
H. BLOCK 40.20.20CM (1.02-3.00)	3,104.3M ²	5.42	7.50	2.08	6,456.95	I
H. BLOCK 40.10.20CM (1.02-3.00)-(1.03)	2,109M ²	4.16	5.83	1.67	3,522.03	II
H. BLOCK 40.17.25CM (1.02-3.00)(2.08)	366M ²	5.42	7.50	2.08	761.28	II
MASONARY MORTOR (40X20X20CM) (2.02,2.03,2.04,2.06,3.00)	1,343.70M ²	5.42	7.50	2.08	2,794.90	III
<u>DIVISION # 5 - METAL</u>						
GIRDERS, SQUARE, COLUMNS, GALV. (3.1-3.06)	27,900 KG	0.512	0.612	0.100	2,790.00	I
<u>DIVISION # 6 - WOOD & PLASTIC</u>						
KITCHEN CAB - FORMICA & MARBLE (1.01)	32 NO	560.00	1,015.00	455.00	14,560.00	I
<u>DIVISION # 7 -THERMAL & MOIST.</u>						
THREE PLY COAT FLAT ROOF	469 M ²	5.00	6.00	1.00	469.00	III

10

EL KHOUDARY CONTRACTING
SCHEDULE OF MATERIAL COST
INCREASES BY TRANSACTION
PERIOD MAY 95 TO FEB 96

ITEM /DESCRIPTION	CLAIMED QUANTITY	PRICE IN DOLLARS		ESCALATION	DOLLAR VALUE	EVIDENCE CATEGORY
		BEFORE	AFTER			
<u>DIVISION # 8 STEEL DOOR & WIN</u>						
DOOR TYPE D6 (1.01)	23 NO	200.00	250.00	50.00	1,150.00	III
DOOR TYPE D12 (1.05)	22 NO	200.00	250.00	50.00	1,100.00	III
STEEL FRAME TO D6 (2.01)	23 NO	20.00	88.00	68.00	1,564.00	III
DOOR TYPE D4 (3.01)	89 NO	200.00	250.00	50.00	4,450.00	III
DOOR TYPE D2 (4.02)	107.10 NO	150.00	180.00	30.00	3,213.00	III
DOOR TYPE D1 (4.01)	9.6 NO	150.00	180.00	30.00	288.00	III
DOOR TYPE D2 (4.02)	45.90 NO	150.00	180.00	30.00	1,377.00	III
ALUMINIUM WINDOWS W1 (6.01)	127.95M ²	53.40	80.00	26.60	3,403.47	III
<u>DIVISION # 9 FINISHING</u>						
PLASTERING (1.01 - 1.02)	15,649 M ²	0.97	1.23	0.26	4,068.74	IV
TILING TERRAZO 25X25X25 (4.02)	2,648 M ²	8.66	10.00	1.34	3,548.32	III
TERRAZO SKIRTING 3X10 (4.30)	3,681M	1.17	1.57	0.40	1,472.40	III
TILING MORTOR	1,324 M ²	0.97	1.23	0.26	344.24	III
NON-SLIP CERAMIC (10X20CM) (3.02)	437 M ²	9.04	10.70	1.66	725.42	III
CERAMIC WALL TILES (20X20) (3.03)	1,144 M ²	9.04	10.70	1.66	1,899.04	III
TERRAZO STAIR TREAD (4.04)	202 NO	16.00	22.00	6.00	1,212.00	V
TERRAZO RISER (4.05)	223 NO	8.00	10.00	2.00	446.00	V
TO INTERIOR WALLS (6.02)	7,901 M ²	1.00	1.23	0.23	1,817.23	III
TO CEILING (6.03)	2,224 M ²	1.00	1.23	0.23	511.52	III
TO EXTERNAL WALLS & SOFFILS(6.29 - 6.30)	1,161 M ²	1.00	1.61	0.61	708.21	III
<u>DIVISION # 15 MECHANICALS</u>						
GALVANIZED IRON PIPE (3.01)	479.7M	4.50	5.40	0.90	431.73	IV
GALVANIZED IRON PIPE (4.01)	27.75 M	4.50	5.40	0.90	24.98	IV

EL KHOUDARY CONTRACTING
SCHEDULE OF MATERIAL COST
INCREASES BY TRANSACTION
PERIOD MAY 95 TO FEB 96

ITEM /DESCRIPTION	CLAIMED QUANTITY	PRICE IN DOLLARS		ESCALATION	DOLLAR VALUE	EVIDENCE CATEGORY
		BEFORE	AFTER			
2500 L PLASTIC WATER TANK (7.01)	40 NO	400.00	433.00	33.00	1,320.00	III
EASTERN WC (7.08)	32 NO	400.00	433.00	33.00	1,056.00	III
WASH HAND BASIN MIXER (7.09)	65 NO	400.00	433.00	33.00	2,145.00	V
SHOWER PIPING (7.13)	32 NO	400.00	433.00	33.00	1,056.00	V
SOLAR COLLECTOR (7.15)	32 NO	400.00	433.00	33.00	1,056.00	IV
TOTAL					88,272.45	
INCORRECT PRICE QUOTES					16,230.00	
GRAND TOTAL					104,502.45	

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>PERCENT OF TOTAL</u>
CATEGORY I THRU III	77,832.00	88
" IV AND V	10,440.45	12
TOTAL	88,272.45	100

12

ATTACHMENT II

AL KHOUDARY CONTRACTING CO.
EXTRA GENERAL REQUIREMENTS
FOR THE PERIOD
FROM AUGUST 1995 TO FEBRUARY 1996

DESCRIPTION	DOLLAR VALUE	EVIDENCE CATEGORY
Salaries and Wages	35,442	I
Telephone and Electricity	1,224	1,021(I) - 203 (III)
General and Administrative	1,538	III
Office supplies	146	III
Maintenance	245	I
Bank Charges	20,320	I
Total Claim	58,915	