



Office of Inspector General

December 15, 2013

MEMORANDUM

TO: USAID/West Bank and Gaza, Mission Director, R. David Harden

FROM: Acting Regional Inspector General/Cairo, Emily R. Gardiner /s/

SUBJECT: Review to Verify Whether Water Pipes and Fittings Purchased by USAID/West Bank and Gaza for the Palestinian Water Authority Were Used as Intended on Approved Mission Projects (Report No. 6-294-14-002-S)

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them, without attachments, in Appendix II.

The final report includes six recommendations for USAID/West Bank and Gaza. In its comments on the draft report, USAID/West Bank and Gaza generally agreed with all six recommendations. Based on our evaluation of the management comments, we acknowledge that the mission made a management decision on all six recommendations and has taken final action on Recommendations 1, 2, 5, and 6, which will be closed upon issuance of this report.

Please provide the Office of Audit Performance and Compliance Division with the necessary documentation to achieve final action on Recommendations 3 and 4.

Thank you for the cooperation and courtesy extended to our team during this review.

SUMMARY

In September 2009 USAID/West Bank and Gaza issued two task orders to procure pipes and fittings worth \$17.1 million to use in the USAID-funded Infrastructure Needs Program. The pipes and fittings were procured to support water distribution improvement projects in the West Bank and Gaza. The mission hired MWH Global and later Black & Veatch to provide construction management services for this program.

To support this effort, on May 20, 2010, USAID/West Bank and Gaza and the Palestinian Authority, acting through the Palestinian Water Authority (PWA), signed a memorandum of understanding (MOU) in which PWA agreed to “provide secure storage for (pipes and materials) at its storage yards in the West Bank until such time as USAID or its implementing partners need them.” These pipes are USAID’s property, intended for use in designated USAID projects. As of September 2013, PWA and contractor records also show that USAID has 4,048 meters of pipe at a PWA storage yard, worth approximately \$154,379.

On October 28, 2011, USAID transferred ownership of some of the pipes and fittings, worth \$6.2 million, to PWA. USAID did this on the condition that PWA use the materials for 14 projects specified at the time of the transfer. Each of these projects required prior approval from the mission for vetting to ensure that no project would benefit municipalities controlled by a designated terrorist organization. As of September 2013, PWA and contractor records show that 22,377 meters of these transferred pipes, worth \$2.9 million, remain at a PWA storage yard.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this review at the request of USAID/West Bank and Gaza to determine whether the pipes and fittings it purchased for PWA were used on mission-approved projects. We found that all of the materials PWA used supported projects to improve the water supply to Palestinians in the West Bank.

However, PWA used USAID-funded pipes worth \$2,272,626 at 19 projects that were different from the 14 projects approved by USAID in October 2011 (page 4). Pipes worth \$2.9 million remain at storage yards awaiting installation, and fittings, worth \$1 million, were either used at the 19 project sites or remain at storage yards awaiting installation.

Furthermore, PWA used materials worth \$395,366 for nine projects in the West Bank, which were not officially transferred and remain the property of the U.S. Government. As a result, the mission had to vet these projects after the materials were installed and had to purchase additional pipes for approximately \$228,898 to replace the materials used by PWA.

This report contains six recommendations for USAID/West Bank and Gaza.

1. Determine the reasonableness of \$2,272,626 associated with materials used at project sites that were not approved in advance, and consider whether it is appropriate to recover any part of the costs deemed unreasonable (page 6).
2. Determine the reasonableness of \$395,366 associated with materials used by the Palestinian Water Authority in the belief that it owned the materials but that were not transferred for its use, and consider whether it is appropriate to recover any part of the costs deemed unreasonable (page 6).

3. Agree in writing with the Palestinian Water Authority to implement a plan to differentiate pipes and fittings owned by USAID and stored in the Palestinian Water Authority's storage yards, and to update the inventory records to reflect USAID ownership (page 6).
4. Implement a plan to ensure that the Palestinian Water Authority uses the remaining inventory transferred to it at locations mutually agreed upon by USAID and the Palestinian Water Authority (page 6).
5. Perform an assessment of the Palestinian Water Authority's inventory management system and provide capacity-building assistance as needed before using its storage yards for future projects (page 6).
6. Implement control activities to monitor inventory held at the Palestinian Water Authority storage yards (page 6).

Detailed results follow, and the scope and methodology appear in Appendix I. Our evaluation of management comments is included on page 7 in this report, and the full text of management comments is included in Appendix II.

REVIEW RESULTS

Authority Used Pipes at Project Sites That Were Not Pre-approved

On May 20, 2010, the USAID/West Bank and Gaza mission director signed a MOU with the Palestinian Authority for the storage of water pipes and other materials at PWA storage yards. The MOU proposed that PWA “take custody of all pipe and materials needed for such projects and provide secure storage for them at its storage yards in the West Bank until such time as USAID or its implementing partners need them to carry out the projects.”

Under this MOU, PWA agreed to maintain accurate, up-to-date inventory and records of all pipes released to construction contractors or to any other parties identified and authorized by USAID. While the materials are in PWA’s storage facilities, they are owned by USAID. The agreement required PWA to obtain USAID’s approval before using the materials in any water projects. If they are used for purposes other than those agreed upon, the MOU states that “PWA or such other entity shall, upon USAID’s request and election, return such property or refund in U.S. dollars the amount disbursed by USAID for such property.”

On October 28, 2011, the mission transferred ownership of pipes and fittings worth \$6.2 million to PWA. USAID made the transfer on the condition that PWA use the materials for 14 projects specified at the time of the transfer. Afterward, PWA used USAID-funded materials at 19 projects that were different from the 14 projects approved by USAID in October 2011. Table 1 lists the locations of those 19 projects.

Table 1. Locations Where PWA Used Materials at Project Sites That Were Not Pre-Approved (Unaudited)

Location	Pipe Diameter (Inches)	Pipe Length (Meters)	Value (\$)
Jenin/Araba (Sanur)	4	36	1,373
Hebron	4	286	10,908
Ramallah/Naleen	4	298	11,366
Izbet Salman—Qalqilya	4	893	34,059
Ramallah	4	452	17,239
Jenin	4	1,000	38,140
Ramallah/Bani Zaid	4	1,122	42,793
Shyoukh	4	73	2,784
North West Jenin	4	1,500	57,210
General Maintenance	6	36	2,339
Hebron	6	2,654	172,430
Qalqilya/Izbet Salman	6	309	20,076
North West Jenin	6	1,000	64,970
Bethlehem (Well PWA #11)	6	83	5,393
Qabatya	6	2,190	142,284
Hebron/Al Rehyeh	6	3,000	194,910
North West Nablus	12	3,000	572,730
North West Jenin	12	4,500	859,095
Aqaba Jenin	12	118	22,527
Total			\$2,272,626

Furthermore, on nine other occasions PWA used materials that were not officially transferred for projects in the West Bank; those materials were worth \$395,366. Table 2 lists where they were used.

Table 2. Projects and Locations Where PWA Used Materials Not Officially Transferred to PWA (Unaudited)

Location	Pipe Diameter (Inches)	Pipe Length (Meters)	Value (\$)
Bethlehem/Za'Atarah	3	298	8,320
Rawabi	3	1,785	49,837
North West Jenin	3	2,975	83,062
Jenin Municipality	3	500	13,960
General Maintenance	3	357	9,967
Sanur—Araba Transmission	8	12	1,301
Hebron/Dura	10	1,481	217,885
Bethlehem	10	4	588
Sanur—Araba Transmission	10	71	10,446
Total			\$395,366

Several factors contributed to the use of materials in a manner inconsistent with the established protocol. These factors included incorrect beliefs about who owned the materials and insufficient inventory controls.

PWA believed the materials were available to use at its discretion for maintenance and line expansion needs; employees did not realize the materials were designated solely for the project sites listed at the time of the transfer. In a letter to the mission's contracting officer's representative dated May 2, 2013, the head of the West Bank Water Department (WBWD)¹ acknowledged that his team did not obtain USAID's approval to use pipes in the storage yards that had not been transferred to PWA because "they had the impression that these pipes belong to the PWA/WBWD and not to USAID."

WBWD's inventory management system did not have sufficient internal controls. The department maintains PWA's primary storage yards, and it uses an electronic inventory system to track pipes and fittings in the yards. However, this system does not differentiate among materials owned by the mission, provided by other donors, and owned by PWA. According to the engineers at WBWD, inventory entries include notations to designate which materials were donated to PWA, but the system does not have information on ownership or whether materials are set aside for specific projects. As a result, the WBWD inventory system shows inventory balances but does not alert users that USAID owns certain materials. Furthermore, while some pipes are marked to designate USAID ownership, there is no clear method to differentiate those pipes easily from others in the storage yards.

USAID/West Bank and Gaza also did not have sufficient internal controls. Contractors issued final acceptance certificates to document that they had delivered the materials they had procured to designated storage yards. After accepting the materials, the mission did not perform regular inventory inspections and did not instruct the project's implementer to perform regular inventory inspections at the PWA storage yards. The current construction management contractor has performed some informal inventory checks, but not consistently.

¹ This organization is part of PWA.

As a result, PWA used \$2,667,992 in pipes and fittings (\$2,272,626 in transferred material and \$395,366 in U.S. Government materials) that should have been used on mission-approved projects. Because PWA used pipes and fittings on projects that were not preapproved, the mission had to replace materials at an additional cost of \$228,898. Finally, because the locations listed above were not included on the original list of proposed project sites, USAID had to perform vetting, as required by Executive Order 13224² and Mission Order 21³, after the U.S. Government materials were installed. All the sites passed vetting.

To resolve these problems and to avoid more misunderstandings about the ownership of materials stored at the PWA facilities, we recommend the following.

Recommendation 1. We recommend that USAID/West Bank and Gaza determine the reasonableness of \$2,272,626 associated with materials used at project sites that were not approved in advance, and consider whether it is appropriate to recover any part of the costs deemed unreasonable.

Recommendation 2. We recommend that USAID/West Bank and Gaza determine the reasonableness of \$395,366 associated with materials used by the Palestinian Water Authority in the belief that it owned the materials but that were not transferred for its use, and consider whether it is appropriate to recover any part of the costs deemed unreasonable.

Recommendation 3. We recommend that USAID/West Bank and Gaza agree in writing with the Palestinian Water Authority to implement a plan to differentiate pipes and fittings owned by USAID and stored in the Palestinian Water Authority's storage yards, and to update the inventory records to reflect USAID ownership.

Recommendation 4. We recommend that USAID/West Bank and Gaza implement a plan to ensure that the Palestinian Water Authority uses the remaining inventory transferred to it at locations mutually agreed upon by USAID and the Palestinian Water Authority.

Recommendation 5. We recommend USAID/West Bank and Gaza perform an assessment of the Palestinian Water Authority's inventory management system and provide capacity-building assistance as needed before using its storage yards for future projects.

Recommendation 6. We recommend USAID/West Bank and Gaza implement control activities to monitor inventory held at the Palestinian Water Authority storage yards.

² See Executive Order 13224 - Blocking Property And Prohibiting Transactions With Persons Who Commit, Threaten To Commit, Or Support Terrorism. September 23, 2001.

³ Mission Order 21 describes procedures to ensure that the mission's assistance program does not inadvertently provide support to entities or individuals associated with terrorism.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/West Bank and Gaza generally agreed with all six recommendations. We acknowledge that management decisions were reached on all recommendations, and final action was taken on Recommendations 1, 2, 5, and 6. A detailed evaluation of management comments follows.

Recommendation 1. The mission determined that the cost of \$2,272,262 associated with materials used at project sites in the West Bank is reasonable and in line with the purpose of the MOU with the Palestinian Authority. Therefore, we acknowledge that the mission has made a management decision and final action has been taken on this recommendation.

Recommendation 2. The mission determined that the cost of \$395,366 associated with materials used at project sites in the West Bank is reasonable and determined that these pipes were used in accordance with objectives of the MOU. Therefore, we acknowledge that the mission has made a management decision and final action has been taken on this recommendation.

Recommendation 3. The mission agreed to implement a plan to differentiate pipes and fittings owned by USAID and stored in PWA's storage yards, and to update the inventory records to reflect USAID ownership. To do so, the mission plans to reach an agreement with PWA by no later than March 31, 2014. Therefore, we acknowledge that the mission has made a management decision on this recommendation. Final action will be taken when the mission completes the written agreement with PWA to implement this plan.

Recommendation 4. The mission agreed to issue an implementation letter to PWA under the MOU with a plan to ensure that the remaining inventory is used at mutually agreed-upon locations. The mission plans to issue this letter by December 31, 2013. Therefore, we acknowledge that the mission has made a management decision on this recommendation. Final action will be taken when the mission issues this implementation letter to PWA.

Recommendation 5. The mission has decided not to use PWA's storage yards in the future to store USAID-owned property. Therefore, we acknowledge that the mission has made a management decision and final action has been taken on this recommendation.

Recommendation 6. The mission agreed to implement control activities to monitor inventory held at the Palestinian Water Authority storage yards. On December 5, 2013, the mission directed its architecture and engineering contractor, Black & Veatch, to perform quarterly checks starting in January 2014. These checks will monitor the USAID-funded inventory held at PWA storage yards. Therefore, we acknowledge that the mission has made a management decision and final action has been taken on this recommendation.

SCOPE AND METHODOLOGY

Scope

RIG/Cairo conducted this review in accordance with the quality standards for inspection and evaluation issued in 2011 by the Council of the Inspectors General on Integrity and Efficiency. These standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with the review objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this review was to verify whether water pipes and fittings that USAID/West Bank and Gaza purchased for PWA were used as intended on mission-approved projects. In May 2010 the U.S. Government, acting through USAID, signed a MOU with the Palestinian Authority, under which PWA was to provide secure storage for pipes and materials at its storage yards in the West Bank. As of September 2013, PWA and contractor records show that 22,377 meters of these transferred pipes, worth \$2.9 million, remain at a PWA storage yard. As of this date, PWA and contractor records also show that USAID has 4,048 meters of pipe at a PWA storage yard, worth approximately \$154,379. We performed this review from September 2 through October 25, 2013, conducting fieldwork at the USAID/West Bank and Gaza office in Tel Aviv, PWA offices in Ramallah, storage yards located in Nablus and Hebron, and the construction management contractor's office in Ramallah.

As part of the review, we assessed the internal controls USAID/West Bank and Gaza has in place over pipes and fittings purchased for use in the West Bank. Those reviewed included but were not limited to inventory management, site inspections, and location verification for pipes and fittings transferred to PWA.

Methodology

To answer the review objective, we interviewed officials from USAID/West Bank and Gaza, PWA, and the mission's construction management contractor. We reviewed and analyzed relevant documents and data at the mission, government offices, and the contractor's office. Documents reviewed included portions of the Automated Directive System, contract task orders, the MOU, and inventory records maintained by PWA.

We visited two PWA storage yards in the West Bank and observed security controls at these sites. We then selected a judgmental sample of seven locations where PWA used USAID-funded materials, traced from the disposition agreement to the PWA inventory records, and ultimately to documentation supporting the installation of pipes and materials at sites in the West Bank. Because of the difficulty in verifying pipes and fittings installed underground, the team relied on documentation maintained by PWA for location verification. Since we did not use a statistical sample, the results of our tests cannot be projected to the population from which they were drawn.

MANAGEMENT COMMENTS



UNCLASSIFIED

Date: December 9, 2013

To: Regional Inspector General, Cairo, Catherine Trujillo

From: Mission Director, USAID West Bank and Gaza, R. David Harden /s/

Subject: Mission's Comments on the Draft Review Report to Verify Whether Water Pipes and Fittings Purchased by USAID/West Bank and Gaza for the Palestinian Water Authority Were Used as Intended on Approved Mission Projects

Draft Review Report No. 2-294-14-00X-S dated November 8, 2013

Reference: Trujillo/Harden memorandum dated November 8, 2013

USAID West Bank and Gaza thanks the Regional Inspector General/Cairo for conducting this review at the Mission's request. The Mission appreciates this opportunity to comment on the draft review report and the six recommendations therein as the RIG prepares the final report. The following are the Mission's comments on each of the six recommendations.

Recommendation No. 1:

We recommend that USAID/West Bank and Gaza determine the reasonableness of \$2,272,626 associated with materials used at project sites that were not approved in advance, and consider whether it is appropriate to recover any part of the costs deemed unallowable.

Response:

The Mission has determined that the cost of \$2,272,626 associated with materials used at the project sites is reasonable and in line with the purpose of the Memorandum of Understanding (MOU) between USAID and the Palestinian Authority (acting through the Palestinian Water Authority (PWA)), dated May 20, 2010. This MOU sets out the objectives of cooperation between USAID and the PWA. The MOU states that the central objective of USAID's assistance to the PWA is to provide clean drinking water and sanitation services to the Palestinian people. In coordination with the RIG review (as described further in the methodology section of the report), the Mission has reviewed the use of the materials in each project and has determined that

each project has value and is within the intent of the MOU – even though the materials were installed at project sites not approved in advance by USAID. In addition, the Mission has vetted these implementation sites to ensure that each passed stringent vetting requirements to protect against potential mis-direction to prohibited entities under anti-terrorist financing rules. Therefore, the Mission requests that this recommendation be closed upon issuance of the final report.

Recommendation No. 2:

We recommend that USAID/West Bank and Gaza determine the reasonableness of \$395,366 associated with materials used by the Palestinian Water Authority in the belief that it owned the materials but that were not transferred for its use, and consider whether it is appropriate to recover any part of the costs deemed unreasonable.

Response:

The Mission has determined that the cost of \$395,366 associated with materials used at the project sites is reasonable. After a thorough review, the Mission has determined that these pipes were used in accordance with objectives of the MOU. The Mission has also vetted these implementation sites to ensure that each passed stringent vetting requirements to protect against potential mis-direction to prohibited entities under anti-terrorist financing rules. Therefore, the Mission requests that this recommendation be closed upon issuance of the final report.

Recommendation No. 3:

We recommend that USAID/West Bank and Gaza agree in writing with the Palestinian Water Authority to implement a plan to differentiate pipes and fittings owned by USAID and stored in the Palestinian Water Authority's storage yards, and to update the inventory records to reflect USAID ownership.

Response:

The Mission agrees with the RIG's recommendation. By no later than March 31, 2014 the Mission will agree in writing with the PWA to implement a plan to differentiate the pipes and fittings owned by USAID and stored in PWA storage yards, and to update the PWA's inventory records to reflect USAID ownership.

Recommendation No. 4:

We recommend that USAID/West Bank and Gaza implement a plan to ensure that the Palestinian Water Authority uses the remaining inventory transferred to it at locations mutually agreed upon by USAID and the Palestinian Water Authority.

Response:

By December 31, 2013, the Mission will issue an implementation letter to the PWA under the MOU with a plan to ensure that the remaining inventory is used at mutually agreed upon locations.

Recommendation No. 5:

We recommend USAID/West Bank and Gaza perform an assessment of the Palestinian Water Authority's inventory management system and provide capacity-building assistance, as needed, before using its storage yards for future projects.

Response:

The Mission requests that the RIG close this recommendation upon issuance because the Mission has decided not to use the PWA's storage yards in the future to store USAID-owned property.

Recommendation No. 6:

We recommend USAID/West Bank and Gaza implement control activities to monitor inventory held at the Palestinian Water Authority storage yards.

Response:

The Mission agrees with the RIG's recommendation. On December 5, 2013, the Mission directed the Mission's architecture and engineering contractor, Black & Veatch, to perform quarterly checks starting January 2014 to monitor the USAID-funded inventory held at PWA storage yards. The email is attached to this management response and therefore the Mission requests that this recommendation be closed upon issuance of the final review.