



**USAID**  
FROM THE AMERICAN PEOPLE

## OFFICE OF INSPECTOR GENERAL

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FINANCIAL AUDIT OF LOCAL COSTS INCURRED BY  
THE LOUIS BERGER GROUP, INC. TO IMPLEMENT  
THE REHABILITATION OF ECONOMIC FACILITIES AND  
SERVICES PROGRAM, USAID/AFGHANISTAN  
CONTRACT NO. 306-C-00-02-00500-00, FOR THE  
PERIOD FROM OCTOBER 1, 2005 TO DECEMBER 31, 2005

AUDIT REPORT NO. 5-306-06-004-N  
March 21, 2006

MANILA, PHILIPPINES

Financial information 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*

March 21, 2006

**MEMORANDUM**

**TO:** USAID/Afghanistan Director, Alonzo Fulgham  
**FROM:** RIG/Manila, *Catherine M. Trujillo*  
**SUBJECT:** Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from October 1, 2005, to December 31, 2005; Audit Report No. 5-306-06-004-N

Please find attached one copy of the subject financial audit report covering local costs incurred by the Louis Berger Group, Inc. (LBGI), to implement USAID/Afghanistan's Rehabilitation of Economic Facilities and Services (REFS) program, for the period from October 1, 2005 to December 31, 2005. The audit was conducted by A.F. Ferguson & Co., which is located in Islamabad, Pakistan and is a member firm of PricewaterhouseCoopers.

The USAID Regional Inspector General in Manila reviewed the report and found that the audit generally met the requirements of the U.S. Government Auditing Standards. The audit firm disclosed the scope limitations that it had a limited continuing professional education program and did not have an external quality control review conducted by an unaffiliated audit organization.<sup>1</sup> However, we performed sufficient oversight of the audit firm during the course of its review to satisfy ourselves of the quality of the work done.

On September 30, 2002, USAID/Afghanistan and LBGI entered into a 39-month contract. Under the contract, LBGI is to provide engineering, construction, construction management and other services to implement the Mission's REFS program in Afghanistan. The objectives of the REFS program include: (1) reconstructing roads, water and electrical systems, school and health facilities, local government buildings, municipal solid waste and waste water facilities and irrigation systems; and (2) building management capacity.

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<sup>1</sup> The audit firm's continuing professional education program is limited to courses conducted internally by the firm and computer-based training courses developed internationally by PricewaterhouseCoopers. The firm's external quality control review was conducted by the Institute of Chartered Accountants of Pakistan and not by an unaffiliated audit organization.

This was the eleventh in a series of up to 15 planned concurrent financial audits of the LBGI contract. The objectives of the audit were to: (1) audit the REFS program costs paid locally in Afghanistan by LBGI, (2) evaluate LBGI's internal control structure for the REFS program, (3) determine whether LBGI complied with contract terms and applicable laws and regulations, and (4) determine whether LBGI has taken adequate corrective action on prior audit report recommendations.

A.F. Ferguson & Co. audited \$2,144,967, of REFS program costs paid locally in Afghanistan by LBGI. The audit firm did not identify any questioned costs, reportable or material internal control weaknesses, or material instances of noncompliance.

Regarding prior audit recommendations from the first to ninth concurrent financial audit reports, the audit firm reported that USAID/Afghanistan sustained \$71,527 of the \$413,369 in unsupported questioned costs. The audit firm also reported that USAID/Afghanistan determined that LBGI has taken or is taking appropriate actions to correct the 43 internal control findings and the 13 material noncompliance findings identified in the reports.

For the tenth concurrent financial audit, the audit firm reported that USAID/Afghanistan is currently evaluating LBGI's actions relating to the two reportable internal control conditions identified in the report. However, subsequent to the issuance of the audit report, USAID/Afghanistan has made a management decision on the recommendation related to these two reportable internal control conditions, although final actions have not yet been taken on the recommendation.

Based on our review of the report, we are not making any recommendations for inclusion in the USAID's Consolidated Audit Tracking System (CATS). We appreciate the cooperation and assistance USAID/Afghanistan extended to the audit firm during the course of the audit.

Attachment: a/s

# **U.S. Agency for International Development – USAID**

Financial Audit of local (Non U.S.) costs incurred  
by **Louis Berger Group Inc. (LBGI)**  
under contract No. 306-C-00-02-00500-00  
funded by USAID to implement the  
**Rehabilitation of Economic Facilities and Services (REFS)**  
**Programme for Afghanistan**

**For the period October 1, 2005 to December 31, 2005**

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## **Audit Report No. 11**

*A.F. FERGUSON & Co.*

a member firm of

**PRICEWATERHOUSECOOPERS** 

**February, 2006**

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

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**1. Background and general description of REFS Programme for Afghanistan**

- 1.1 After joint forces of the international community engaged in a military campaign in war torn Afghanistan with the Taliban regime, the United Nations brokered an agreement, the Bonn Accord, in December 2001 among various Afghan groups “on provisional arrangements in Afghanistan pending the re-establishment of permanent government institution.” The support of the international community is essential to stabilize the economic and political situation in Afghanistan. The Bonn Accord set the stage for stability to be achieved and has specifically and repeatedly called for UN assistance in the implementation of key components of the agreement. Indications are, however, that substantial additional external donor assistance is needed to supplement that already promised and planned by the United Nations Assistance Mission to Afghanistan (UNAMA).
- 1.2 The purpose of the REFS Programme for Afghanistan is to promote economic recovery and political stability in Afghanistan by repairing selected infrastructure needed to lower transportation cost, improve the provision of water and sanitation services, increase access to education, health and local government facilities, restore electrical transmission and distribution systems, and repair/reconstruct irrigation systems, dams/diversions and canals critical to the reactivation of the agriculture sector, the dominant means of livelihood in Afghanistan. To ensure the sustainability of the projects, an institutional strengthening component needs to be implemented for the transportation, water/waste water/solid waste, irrigation and electric energy sectors.
- 1.3 Considering the above mentioned needs the REFS Programme for Afghanistan consists of three main components:
- i) Rehabilitation and construction projects
  - ii) Institutional strengthening of selected public services
  - iii) Purchase, importation and distribution to subcontractors of construction materials and supplies not available in Afghanistan
- 1.4 In addition to above mentioned objectives another key focus of REFS Programme for Afghanistan is to provide employment to the local community. Because of the high rate of unemployment, it is necessary to design projects that maximize the use of manual labor to the extent possible. The implementing agency is expected to use Afghan professional staff to the greatest extent possible and to mentor them, and give them greater management and implementation responsibility over the life of the Programme.

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- 1.5 On September 30, 2002, the U.S. Agency for International Development (USAID), mission to Afghanistan, entered into a Contract (No. 306-C-00-02-00500-00) with the Louis Berger Group, Inc. (LBGI) to provide engineering, construction, construction management and other services to implement the Afghanistan Rehabilitation of Economic Facilities and Services (REFS) Programme. The contractor is to ensure the successful design, implementation and completion of authorized REFS projects in support of the United States Government's assistance to Afghanistan in the areas of transportation, potable water, electricity transmission and distribution systems, school and health facilities, local government buildings, municipal solid waste and waste water facilities and irrigation systems.
- 1.6 As part of this programme LBGI is required to perform the following tasks:
- i. Preparation of implementation plan for REFS Programme for Afghanistan
  - ii. Project Implementation
  - iii. Development and application of subcontractor selection criteria
  - iv. Development and application of Cost Control Reporting System
  - v. Development and application of Quality Control and Quality Assurance Programme
  - vi. Preparation of environment assessments guidelines
  - vii. Verification of demining by UN Mine Action Centre
  - viii. Development of Construction Manual
  - ix. Conduct pre-construction conferences
  - x. Development of Construction Risk Management Program
  - xi. Issue notices to proceed and to commence
  - xii. Follow up delays in project executions
  - xiii. Monitor safety program procedures
  - xiv. Procurement, importation and distribution of required material and equipment
  - xv. Development of security plan
  - xvi. Project coordination
  - xvii. Inspection, measurement and construction monitoring
  - xviii. Unit Acceptance, Project Turnover and Warranty Period
  - xix. Determination, certification and payment for works performed
  - xx. Evaluation and recommendation for changes/claims by subcontractors for approval of USAID.

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1.7 LBGI is currently involved in various sectors of the REFS programme for Afghanistan including construction of roads, construction and rehabilitation of schools, clinics, irrigation and electricity distribution facilities and related demining services in different provinces of Afghanistan.

1.8 According to latest progress report 30 job orders have been issued by USAID to LBGI. Further following are the major activities in which LBGI remained involved till December 31, 2005:

**Highways**

- i) Kabul-Kandahar
- ii) Kandahar-Herat (rehabilitation)
- iii) Kabul-Gardez

**Secondary Roads**

- i) Lashkar Gah to Ring Road
- ii) Farah to Ring Road
- iii) Ghazni to Sharan
- iv) Pull-e-Alam
- v) Jalalabad to Asmar
- vi) Panjsher
- vii) Tirin kot
- viii) Shiberghan

**Urban Roads**

- i) Shash Darak
- ii) Great Massoud/BiBi Mahro Airport Road

**Power**

- i) Kandahar Emergency Generating Plant
- ii) Lashkar Gah & Qalat Emergency Generating Plant
- iii) Kandahar Soviet Diesel Generating Plant
- iv) Kajakai Hydroelectric Power Plant Turbine Refurbishment and New Turbine (units 1, 2 and 3)
- v) Kajakai Dam Safety Assessment
- vi) Kajakai Irrigation Diversion Valves
- vii) Darunta Hydroelectric Plant

**Irrigation**

- i) Mohammad Agha and Moghul Khil Intakes
- ii) Sardeh Irrigation System
- iii) Zana Khan Dam
- iv) Sar-e-Haus dam
- v) Sar-e-Haus Spillway and Diversion Channel
- vi) Shah Rawan Intake
- vii) Benchmark Survey

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<b>School</b>	i)	Kabul	1
	ii)	Ghazni	10
	iii)	Faryab	9
	iv)	Helmand	4
	v)	Uruzgan	9
<b>Clinics</b>	i)	Kabul	1
	ii)	Ghazni	13
	iii)	Badakshan	9
	iv)	Paktya	13
	v)	Kandahar	7
	vi)	Helmand	13
	vii)	Kunduz	16
<b>Provincial roads reconstruction program</b>	i)	Pul-e-alam Ring Road	
	ii)	Panjsher Valley Road	
	iii)	Sherberghan- Sari-Pul Road	
	iv)	Kandahar- Tirin Kot Road	
	v)	Jalalabad- Amsar Road	
<b>Water and waste water projects</b>	i)	Chele Daktharan	
	ii)	Kandahar	
	iii)	Gardez	
	iv)	Ghazni	
	v)	Allaudin	
	vi)	Others	

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
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**2. Objective and scope of financial audit**

**2.1 Contract**

The contract of the financial audit engagement (contract 306-C-00-03-00013-00) has been assigned to A.F. Ferguson & Co. Islamabad by US Agency for International Development (USAID) Manila to conduct concurrent financial audits of the local (non-US) costs of the USAID resources managed by LBGI under Contract No. 306-C-00-02-00500-00 (the LBGI Contract). LBGI's Contract is for execution of Rehabilitation of Economic Facilities and Services Programme in Afghanistan (REFS). The audit engagement is for a base period from September 30, 2002 to December 31, 2005 with the optional period of one year up to December 31, 2006. This engagement includes an initial audit for the period September 30, 2002 to June 30, 2003, followed by quarterly audits for subsequent periods.

**2.2 Scope**

The Specific objectives of the audit of the USAID funds are:

- i) Audit of the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
- ii) Review of Internal Control Structure of LBGI for REFS Programme for Afghanistan
  - The internal control review is required to be executed in accordance with U.S. General Accounting Office's Standards for Internal Controls in the Federal Government (1983). The report on internal control review is in conformity with SAS No. 60 and the standards for reporting in Chapter 5 of U.S. Government Auditing Standards.
- iii) Review of LBGI Compliance with Agreement Terms and Applicable Laws and Regulations
  - For preparation of report on LBGI's compliance with agreement terms and applicable laws and regulations related to the USAID funded contract, guidance has been obtained from SAS No. 74.
  - Our work related to physical completion of construction work was limited to review of work completion certificates issued by the technical staff of LBGI or an independent technical expert if so contracted for this purpose by LBGI and visits to project sites.
- iv) Determine whether LBGI has taken adequate corrective action on prior audit reports recommendations.

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2.3 Deliverables

As part of this engagement the following outputs are to be delivered to the Cognizant Technical Officer (CTO) for the financial audit of LBGi:

- i) An audit programme with detailed audit steps to be used for the initial audit and subsequent quarterly audits. The audit programme was delivered to the CTO on July 29, 2003.
- ii) For the initial audit and for each quarterly audit thereafter, a draft report in English. The draft audit report for the initial audit was required to be submitted to the CTO by September 30, 2003. The initial audit report was delivered to the CTO on September 30, 2003. Each of the quarterly draft audit reports is required to be submitted to the CTO within 30 days after the end of the quarterly period to be audited.
- iii) For the initial audit and for each quarterly audit thereafter, a final audit report that incorporates revisions based on the CTO's comments. Each final audit report must be delivered to the CTO within 30 days of receipt of the CTO's comments on the draft audit report.

2.4 Summary of Audit Results

- i) Total costs (local) billed to USAID under Contract Line Item No. 1 by LBGi related to REFS Programme during the quarter ended December 31, 2005 were US\$ 2,144,967. Further, during the quarter ended December 31, 2005 no costs were billed to USAID under Contract Line Item No. 2, which could be considered as local cost for the purpose of this audit.
- ii) In the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the quarter we have not identified any material ineligible or unsupported costs out of total costs billed for the said quarter for Contract Line Item No. 1.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan**  
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**For the period October 1, 2005 to December 31, 2005**

- iii) In addition to internal control weaknesses reported in our Audit Report Nos. 1 to 10 no additional reportable condition or material weakness was noted during the course of this audit.
- iv) The results of our compliance tests for the quarter did not disclose any material non-compliance.
- v) For Audit Report Nos. 1 through 9, the USAID's Mission sustained US\$ 71,527 of the US\$ 413,369 in unsupported questioned costs. Also, the Mission determined that LBGI has so far taken and is taking appropriate actions to correct the 43 internal control findings and the 13 non-compliance findings identified in the reports. For Audit Report No. 10, the Mission is currently evaluating LBGI's actions relating to two internal control weaknesses identified in the report.

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Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
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**Independent Auditors Report on Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00**

The Board of Directors  
Louis Berger Group Inc.  
1519 H Street, N.W.  
Washington DC 20006

1. We were engaged to audit the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 (the Schedule) for the Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan executed by the Louis Berger Group Inc. (LBGI) as per contract no. 306-C-00-02-00500-00 (the Contract) with USAID for the period October 1, 2005 to December 31, 2005. The Schedule has been prepared based on costs included by LBGI in its invoices submitted to USAID.
2. We conducted our audit of the Schedule in accordance with scope of work defined in our contract 306-C-00-03-00013-00 with USAID and in accordance with U.S Government Auditing Standards issued by the Controller General of the United States with the exception that we are not required to express an opinion on the Schedule referred in paragraph 1 above; and our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization. An audit includes examining, on a test basis, evidence supporting the amounts included in the Schedule and invoiced to USAID. An audit also includes assessing the accounting principles used and significant estimates made by the management in accumulating costs.
3. Our audit was conducted on test basis. The results of our tests disclosed no material cost, which could be classified as ineligible or unsupported cost in the Schedule of local costs billed to USAID under Contract Line Item No. 1 during the quarter ended December 31, 2005.
4. This report has been discussed with the management of LBGI in Kabul and with the controller of LBGI in Washington.

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5. In accordance with the U.S. Government Auditing Standards, we have also issued our reports dated February 13, 2006 on our consideration of LBGI's internal control over financial reporting and our tests of its compliance with certain provisions of the agreement terms and applicable laws and regulations. Those reports are an integral part of the audit performed in accordance with the scope of work for this audit defined in our contract with USAID and U.S. Government Auditing Standards and should be read in conjunction with this independent auditor's report in considering the results of our audit.
6. This report is intended for the information of LBGI and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



A.F.Ferguson & Co.  
Chartered Accountants

Date: February 13, 2006  
Islamabad, Pakistan

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
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Leads Berger Group Inc. (LBGI)

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
 For the period October 1, 2005 to December 31, 2005  
 (under Contract Line Item No. )

Budget	Actual Costs			Questioned Cost		Note
	Price period September 1, 2002 to September 30, 2005	Current period October 1, 2005 to December 31, 2005	Commutative upto December 31, 2005	Ineligible costs for current period	Unsupported costs for current period	
US\$						

**COSTS INCURRED**

Contract Line Item No. 88

**Salaries**

**Salaries and wages**

Long term technical - Expatriate	-	-	-	-	-
Long term technical - Cooperating Country Nationals (CCN)	1,812,345	474,088	2,286,503	-	-
Short term technical - Expatriate	-	4,798	4,798	-	-
Short term technical - Cooperating Country Nationals (CCN)	10,635	9,209	19,834	-	-
Local personnel	1,781,084	304,203	2,141,947	-	-
Post differential	1,434	688	1,962	-	-
Danger pay	529	688	1,017	-	-
<b>Sub-total</b>	-	3,685,687	891,983	4,437,592	-

**Overseas allowances**

Separate maintenance allowances	939,802	238,128	1,197,928	-	-
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**Transportation**

International travel	376,914	87,381	467,323	-	-
Per diem	1,161,051	107,383	1,338,914	-	-
Local travel	1,232,360	198,000	1,430,360	-	-
Vehicle maintenance	340,388	24,915	365,303	-	-
Miscellaneous travel expenses	34,638	-	34,638	-	-
<b>Total</b>	-	3,045,279	808,773	3,897,047	-

**Non-capitalizable inventories**

Equipment	318,484	13,687	332,171	-	-
Machinery	106,798	-	106,798	-	-
Vehicles	208,008	-	208,008	-	-
Furniture and fixtures	34,693	4,020	38,713	-	-
Household improvements	135,548	-	135,548	-	-
<b>Total</b>	-	798,518	17,707	816,223	-

<b>Sub-total carried forward</b>	-	8,413,208	1,615,189	10,028,788	-
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The unenclosed items form an integral part of this schedule

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
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Lois Berger Group Inc. (LBGI)  
 Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
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 (under Contract Line Item No. )

Budget	Actual Costs			Questioned Cost		Note
	Prior period September 1, 2005 to September 30, 2005	Current period October 1, 2005 to December 31, 2005	Cumulative upto December 31, 2005	Invalid costs for current period	Unsupported costs for current period	
US\$						
<b>COSTS INCURRED</b>						
<b>Contract Line Item No. 01</b>						
Sub total brought forward	8,413,200	1,645,509	10,058,709	-	-	
<b>Office maintenance</b>						
Housekeeping services	414,229	53,585	467,814	-	-	
Office supplies	491,362	84,749	576,111	-	-	
House hold effects	280,073	-	280,073	-	-	
Others	1,021,065	98,728	1,119,793	-	-	
Total	-	2,211,928	217,441	2,429,369	-	-
<b>Communication</b>						
Phone	284,637	18,853	303,490	-	-	
Internet	187,793	366	188,159	-	-	
Courier	89,579	5,820	95,399	-	-	
Misc	177	-	177	-	-	
Total	-	482,148	22,858	482,964	-	-
<b>Technical contracts</b>						
Management						
Foods	24,632	-	24,632	-	-	
Schools	53,267	-	53,267	-	-	
Medical	9,746	-	9,746	-	-	
Water/Water	7,326	-	7,326	-	-	
Infrastructure	11,500	-	11,500	-	-	
Dams & Irrigation	1,003	-	1,003	-	-	
Agriculture	3,068	-	3,068	-	-	
Total	-	111,834	-	111,834	-	-
<b>Other direct costs</b>						
Office rent	1,390,584	152,000	1,542,584	-	-	
Bank charges	1,945	260	2,205	-	-	
Other labor costs	158,986	9,023	168,009	-	-	
Permissions	21,811	-	21,811	-	-	
Others	195,118	(11,879)	183,239	-	-	
Total	-	1,771,644	159,213	1,930,857	-	-
Total costs incurred	-	12,991,837	1,986,881	14,978,718	-	-
Programme support fee 8%	-	1,039,631	158,986	1,198,617	-	-
Fixed fee on subcontracts 2%	-	3,219	-	3,219	-	-
Total costs incurred in CLIS 1	-	14,026,787	2,144,867	16,171,654	-	-

The annexed notes form an integral part of this schedule

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
 Audit Report No. 11  
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
 For the period October 1, 2005 to December 31, 2005**

**Louis Berger Group Inc. (LBGI)**  
 Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
 For the period October 1, 2005 to December 31, 2005  
 (under Contract Line Item No. 2)

Budget	Actual Costs			Questioned Cost		Notes
	Price period April 1, 2004 to September 30, 2005	Current period October 1, 2005 to December 31, 2005	Cumulative upto December 31, 2005	Ineligible costs for current period	Unsupported costs for current period	
			185			

**COSTS INCURRED**

**Contract Line Item No. 02**

**Other direct costs**

Schools	227,889	-	227,889	-	-
Basic Health Clinics	580,136	-	580,136	-	-
Water and Wastewater	21,733	-	21,733	-	-
Kabul-Kandahar Highway	4,678	-	4,678	-	-
Dams and Irrigation	1,000	-	1,000	-	-
Power and Energy	293,070	-	293,070	-	-
Kandahar-Herat Highway	38,532	-	38,532	-	-
<b>Total costs incurred</b>	<b>1,185,060</b>	<b>-</b>	<b>1,185,060</b>	<b>-</b>	<b>-</b>
Fixed fee on subcontracts 2%					
<b>Total costs incurred in CLIN 2</b>	<b>333,178,257</b>	<b>1,185,060</b>	<b>1,185,060</b>	<b>-</b>	<b>-</b>

The annexed notes form an integral part of this schedule

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

**Notes to the schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00**

**1. Activities**

U.S. Agency for International Development USAID has awarded a contract (No. 306-C-00-02-00500-00) to Louis Berger Group Inc. of United States of America to work as a general contractor for execution of Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan. LBGI is providing engineering, construction, and construction management services. Deliverables include the successful design, implementation and completion of authorized REFS projects in support of United States Government's assistance to Afghanistan in the areas of transportation, potable water, electricity transmission and distribution systems, school and health facilities, local government buildings, municipal solid waste and waste water facilities and irrigation systems.

**2. Basis for preparation of the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 (the Schedule)**

The Schedule is prepared in accordance with the requirements of the Regional Inspector General of USAID in respect of all local (Non-U.S.) costs for REFS programme for Afghanistan, where local cost means costs incurred and disbursed in Afghanistan. All local costs related to the Programme are reflected in the Schedule based on invoices submitted by LBGI to USAID. Costs of expendable and non-expendable inventory items are charged off when incurred. The Schedule of Contract Line Item No.1 for the period October 1, 2005 to December 31, 2005 is based on invoice Nos. 141, 145, and 149.

**3. Budgetary allocations for the REFS contract**

The budget allocation of US \$ 665 million is based on modification number 22 of the LBGI's contract with USAID. The budget allocation has been divided into following contract line items and has not been classified into detailed cost elements:

	US \$ Million
Contract Line Item Number 1	111,460,743
Contract Line Item Number 2	553,539,257
	<hr/> <u>665,000,000</u>

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

**Independent Auditors Report on Internal Control**

The Board of Directors  
Louis Berger Group Inc.  
1519 H Street, N.W.  
Washington DC 20006

1. We were engaged to audit the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 of local (Non-U.S.) costs for the Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan executed by the Louis Berger Group Inc (LBGI) as per contract no. 306-C-00-02-00500-00 with USAID for the period October 1, 2005 to December 31, 2005 for Contract Line Item No. 1 and have issued our report on that audit dated February 13, 2006.
2. We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Controller General of the United States with the exception that our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.
3. The management of LBGI 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 agreements; and transactions are recorded properly to permit the preparation of the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00. 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.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

4. In planning and performing our audit of the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 of LBG1 for the period October 1, 2005 to December 31, 2005, 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 Schedule and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.
5. We noted certain matters, listed below, involving internal control and its operation that we consider to be reportable conditions under standards established by American Institute of Certified Public Accountants (AICPA). Following reportable conditions had been reported in our Audit Report Nos. 1 to 10 involving 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 Schedule.

**RA Financial Controls**

- RA-1 Financial transactions not classified at adequate detailed level
- RA-2 Lack of controls over personnel use of communication facilities
- RA-3 Use of guest house for non-programme related activities not identified
- RA2-1 Lack of documentation related to dependents of expatriate staff members
- RA2-2 Project manager approved his own expenses
- RA9-1 Purchase order numbers not noted on the related supplier invoices

**RB. Human Resource Management**

- RB-1 Human resource policies for local Afghan staff members not defined
- RB-2 Timesheets of local Afghan staff members prepared by the Project Accountant
- RB2-1 Timesheets, attendance records and leave records not consistent

**RC Inventory Management**

- RC-1 Policy for classification of procured items as non-expendable not complied with
- RC-2 Adequate information not available in non-expendable inventory listing
- RC-3 Expendable and non-expendable inventory items not segregated
- RC3-1 Quantity of Chemcrete procured not reconciled with the quantity of Chemcrete consumed for Bitumen produced by sub-contractors
- RC9-1 Inventory listing not reconciled with the records maintained by the finance department
- RC10-1 Policy and procedure for identification of damaged and/or obsolete inventory items not defined

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
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For the period October 1, 2005 to December 31, 2005**

RC10-2 Inventory items procured under REFS by LBGI and the sub-contractor not separately identifiable at the field location visited by us

**RD General**

- RD-1 Policy for related party transactions not formulated
- RD-2 Lack of physical controls over computer peripherals
- RD-3 Lack of password controls

An update of progress made by LBGI on our recommendations has been given in section 4.2 of this report. On the other hand, the USAID's Mission has determined that LBGI has taken or is taking appropriate actions to correct the 17 reportable internal control findings identified in Audit Report Nos. 1 to 9. For two reportable conditions reported in Audit Report No. 10 no progress was noted by us during the course of our field work for Audit No. 11.

6. 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 Schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
7. Our consideration of internal control would not necessarily disclose all matters on the 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 and reported following matters involving the internal control structure and its operations in our Audit Report Nos. 1 to 10 that we considered to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the Schedule for the period October 1, 2005 to December 31, 2005. However, because of the nature of the following material weaknesses, we were unable to satisfy ourselves that the Schedule is free of material misstatement caused by irregularities, if any.

**MA. Financial Controls**

- MA-1 Lack of segregation of functions related to approval of expenditure and disbursements
- MA-2 Cash handling function not independent of the recording function
- MA-3 Lack of segregation of duties in payroll processing function at Kabul office
- MA-4 Supporting documents not available for certain disbursements
- MA-5 Quotations not obtained for procurements in line with procurement policy of LBGI
- MA-6 Log not maintained at Project Office in Afghanistan to record invoices received from subcontractors

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
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For the period October 1, 2005 to December 31, 2005**

- MA-7 Payment vouchers and related supporting documents not stamped "PAID"
- MA-8 Detailed budget for REFS Programme not available
- MA-9 Computer application susceptible to post processing modifications
- MA2-1 Policy for recording costs incurred in currencies other than US \$ in Field Cash Report (FCR) not formulated
- MA2-2 Proper record for casual labor not maintained
- MA2-3 Expense reports submitted by employees not approved
- MA3-1 Expenditure statements prepared at Kandahar office are not properly verified and signed by an authorized official
- MA3-2 Requisitions and Store Receipt and Inspection Report (RIR) not prepared for material procured in Ghazni
- MA4-1 Approval of appropriate official for modifications in employment contracts at Ghazni Office not obtained
- MA4-2 Authority limits for regional offices not defined
- MA5-1 Disbursement prior to approval of payment voucher
- MA6-1 List not maintained of authorized rent a car dealers, with approved car rent rates
- MA8-1 Differences in the information related to local personnel as per records of Personnel department and records maintained by the Finance department
- MA8-2 Payment vouchers in Herat office not numbered

**MB. Inventory Management**

- MB-1 Inventory listing not reconciled with the financial records. Receipt and issue documents not prepared
- MB-2 Independent physical verification of expendable and non-expendable inventory items not conducted
- MB-3 Subsidiary record not maintained for recording movement of expendable inventory items
- MB7-1 The non-expendable inventory items of REFS currently in USPI's possession have not been physically verified
- MB8-1 Inventory management procedures not consistently applied at all locations

**MC. General**

- MC-1 Inadequate segregation of duties in Computer Information Systems (CIS) department

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

An update of progress made by LBGI on our recommendations has been given in section 4.2 of this report. On the other hand, the USAID's Mission has determined that LBGI has taken or is taking appropriate actions to correct the 26 material internal control findings identified in Audit Report Nos. 1 to 9.

8. All the above reported observations and recommendations have been discussed with the management of LBGI in Kabul and the controller of LBGI in Washington. All written and verbal comments provided by the management of LBGI to date have been adequately considered while finalizing this report.
9. This report is intended for the information of Louis Berger Group Inc and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



A. F. Ferguson & Co.  
Chartered Accountants

Date: February 13, 2006  
Islamabad, Pakistan

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audits

Our Observations and  
recommendations

Progress  
by LBGi management

#### Reportable conditions

#### RA Financial Controls

**RA-1 Financial transactions not classified at adequate detailed level**

*The financial transactions of REFS Programme be classified at least in line with heads of account which have been used for preparation of the current Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00.*

**Implemented :** The Computer System used for accounting in the REFS-Kabul office (REFS Database) has expanded fields to identify the cost category for each expenditure made in Afghanistan but such expanded fields include heads of accounts disclosed in the Schedule of local costs billed to USAID.

**RA-2 Lack of control over personal use of communication facilities**

*The mobile telephone company be required to provide activity details on monthly basis so that personal use of communication facilities would be properly segregated.*

**Implemented:** A phone use policy has already been developed, effective from April 2004 by the Administrative Office. This policy defines the procedure for recovery of identified personal use of phones and collection procedure. By virtue of this policy, the mobile phone and Thuraya phone bills are subject to review by the users who would advise personal calls to the finance office within 15 days of the submission. The amount identified as personal calls is deducted from the salary. Further, the mobile phone companies have started raising invoicing/ billing providing details of all the outgoing and incoming calls.

**RA-3 Use of guest houses for non-programme related activities not identified**

*Guest house registers be maintained in which particulars of occupant are recorded on timely basis and it is monitored by an authorized representative of LBGi.*

**Implemented:** Guest House registers have already been introduced by Administration Officer of LBGi in Afghanistan and daily attendance record of each guest is being maintained.

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audits

Our Observations and Recommendations	Progress By LBGI management
<p><b>RA2-1 Lack of documentation related to dependents of expatriate staff members</b></p> <p><i>Complete, verified information of the number of dependants of each expatriate staff member should be maintained in the personal file of each employee.</i></p>	<p><b>Implemented:</b> Declaration from each expatriate staff members relating to their number of dependents has already been obtained. The declarations are now updated at regular intervals.</p>
<p><b>RA2-2 Project manager approved his own expenses</b></p> <p><i>Expense reports of the project manager be approved by an independent official designated for this purpose.</i></p>	<p><b>Implemented:</b> LBGI has established a policy of approvals to prohibit this from occurring again. The Deputy Chief of Party approves the vouchers of the Project Manager or in the absence of the Deputy Chief of Party; the Administrative Officer approves the expenses of the Project Manager. A final review and approval is made by the Project Controller to ensure that all documentation is in order.</p>
<p><b>RA9-1 Purchase order numbers not noted on the related supplier invoices.</b></p> <p><i>Purchase order number is noted on all related supplier invoices at the time of payment processing.</i></p>	<p><b>Implemented:</b> Purchase order numbers are now noted on all supplier invoices for proper tracing of individual supplier invoices to the related purchase orders on timely basis.</p>
<b>RB Human resource management</b>	
<p><b>RB-1 Human resource policies for local Afghan staff members not defined</b></p> <p><i>Separate personnel policies for local Afghan staff members be prepared, approved and implemented, for dealing with matters related to local Afghan staff members.</i></p>	<p><b>Implemented:</b> A local employee policy handbook has been developed and approved by the administration office and distributed to all local employees of LBGI. Acknowledgements of such distribution are filed in personnel files.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBGi management
<p><b>RB-2 Timesheets of local Afghan staff members prepared by the Project Accountant</b></p> <p><i>All staff members irrespective of their origin prepare their monthly time sheets / activity reports which should be reviewed and signed by their immediate supervisor.</i></p>	<p><b>Implemented:</b> A new policy has been implemented by LBGi's management in Kabul whereby all the local staff members submit their monthly time sheets, which are duly approved by the respective section heads, prior to disbursement of monthly salary. No salaries are disbursed without submission of approved time sheets.</p>
<p><b>RB2-1 Timesheets, attendance records and leave records not consistent</b></p> <p><i>All timesheets, attendance records and leave records should be regularly reviewed by an appropriate independent official on timely basis to ensure that these are consistent.</i></p>	<p><b>Implemented:</b> A new system for maintenance of leave records and time sheets has been developed and implemented, effective from August 2004. Actual attendance records have been dispensed with. This system has assisted the management in removing discrepancies amongst timesheets and leave records.</p>

## RC Inventory Management

<p><b>RC-1 Policy for classification of procured items as non-expendable not complied with</b></p> <p><i>The project accountant should ensure that all procurements having unit cost of US \$ 500 or above items having useful life of more than one year be classified as fixed assets.</i></p>	<p><b>Implemented:</b> A list of all items having unit cost of US \$ 500 or more and having useful life in excess of two years has already been compiled and implemented, effective from August 2004 in accordance with the requirements of USAIDAR 752.245.70.</p>
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## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBGI management
<p><b>RC-2 Adequate information not available in non-expendable inventory listing</b></p> <p><i>Detailed subsidiary record of non-expendable inventory be maintained encompassing all information elements listed in criteria defined in the report including code, cost, document references etc.</i></p>	<p><b>Implemented:</b> A list of all items having a unit cost value of US\$ 500 or more and having useful life in excess of two years has already been compiled and implemented, effective from August 2004 in accordance with the requirements of USAIDAR 752.245.70. The contents of this listing now include reference to related payment documents and item codes. Consequently, now it is possible to trace items listed in the non-expendable inventory listing to the payment documents in the financial records and to the items on floor.</p>
<p><b>RC-3 Expendable and non-expendable inventory items not segregated</b></p> <p><i>Each payment voucher for procurement of goods is marked with classification of inventory items procured and inventory listing should be maintained separately for expendable and non-expendable inventory.</i></p>	<p><b>Implemented:</b> Segregation of expendable and non-expendable items is appearing on the vouchers and there is a separate list for expendable inventory items.</p>
<p><b>RC3-1 Quantity of Chemcrete produced not reconciled with the quantity of Chemcrete consumed for Bitumen produced by sub-contractors</b></p> <p><i>Complete documentation trail of movement from procurement of Chemcrete for Bitumen production to its utilization in road construction by sub-contractors is maintained and inflows and outflows are reconciled on periodic basis.</i></p>	<p><b>Implemented:</b> LBGI has prepared Reconciliation between the standard quantity of Bitumen consumed by subcontractors for four sections of Kabul – Kandahar highway project and the quantity of Chemcrete supplied by LBGI to subcontractors for production of Bitumen.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBG I management
<p><b>RC9-1 Inventory listing not reconciled with the records maintained by the finance department.</b></p> <p><i>Non-expendable inventory listing maintained by the logistics department is reconciled with the records of the finance department on monthly basis.</i></p>	<p><b>Implemented:</b> Non-expendable inventory listing maintained by the logistics department has been reconciled with the records of the finance department.</p>
<p><b>RC10-1 Policy and procedure for identification of damaged and/or obsolete inventory not defined</b></p> <p><i>Complete Logistics and IT department jointly develop policy and procedure related to identification of obsolete and damaged inventory items and after formal approval of the management, such policy and procedure is effectively implemented.</i></p>	<p><b>Implementation in progress:</b> No progress was noted by us during the course of our field work for Audit No. 11. Further, no update has been reported by LBG I on the progress related to this recommendation.</p>
<p><b>RC10-2 Inventory items procured under REFS by LBG I and the sub-contractor not separately identifiable at the field location visited by us.</b></p> <p><i>All inventory items procured for REFS programme by LBG I are affixed with identification codes and it is ensured at field locations that such inventory items are separately identifiable at all times for effective physical control.</i></p>	<p><b>Implementation in progress:</b> No progress was noted by us during the course of our field work for Audit No. 11. Further, no update has been reported by LBG I on the progress related to this recommendation.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

	Our Observations and Recommendations	Progress By LBGi management
<b>RD</b>	<b>General</b>	
<b>RD-1</b>	<p><b>Policy for related party transactions not formulated</b></p> <p><i>A related party detection and monitoring policy should be formulated by LBGi which may include procedures and guidelines to the management and employees of LBGi who are in a position to directly or indirectly influence the award of material sub contracts, relating to procedures to be adopted in case of expected related party transactions.</i></p>	<p><b>Implemented:</b> A clause has already been included in the employment contracts to prohibit related party transactions. Further LBGi has included provision related to conflict of interest in instructions to bidders.</p>
<b>RD-2</b>	<p><b>Lack of physical controls over computer peripherals</b></p> <p><i>Standard documents should be prepared for recording all physical movements relating to computer peripherals.</i></p>	<p><b>Implemented:</b> An inventory movement/transfer form has been introduced to control physical movements. In addition, the IT department has implemented a software “Assets Navigator system” which provides periodic assets tracking reports which are used by management for control over computers and peripherals.</p>
<b>RD-3</b>	<p><b>Lack of password controls</b></p> <p><i>Passwords be used for effective control over areas identified and all unauthorized access attempts are checked on a timely basis.</i></p>	<p><b>Implemented:</b> The IT officer has internally initiated a separation of duties and password access mechanism according to which all employees are required to change personal passwords at least once every two months, upon compromise or upon change in IT staffing.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and recommendations	Progress By LBGI management
<b>Material Weaknesses</b>	
<b>MA Financial Controls</b>	
<p><b>MA-1 Lack of segregation of functions related to approval of expenditure and disbursement</b></p> <p><i>Approval and payment functions should be performed by persons independent of each other.</i></p>	<p><b>Implemented:</b> LBGI's management planned to create a position of cashier at Kabul office; however this proposition was not implemented. There is a partial segregation of function related to approval and disbursement of expenditure, as the head of accounts section is responsible for making disbursements, who is a senior and key member of accounts / finance section of LBGI.</p>
<p><b>MA-2 Cash handling function not independent of the recording function</b></p> <p><i>Cash handling function be performed by an official independent of the official responsible for recording such transactions.</i></p>	<p><b>Implemented:</b> Same as MA-1 above.</p>
<p><b>MA-3 Lack of segregation of duties in payroll processing function at Kabul office</b></p> <p><i>Payroll disbursement function should be separated from the function of preparation of payroll.</i></p>	<p><b>Implemented:</b> The process was modified. Now the employee and supervisor fill out and certify the timesheets. The project accountant prepares the detailed payroll. All the payments including payrolls are approved by Deputy Chief of Party.</p>
<p><b>MA-4 Supporting documents not available for certain disbursements</b></p> <p><i>No payment should be approved when supporting documents are not attached to the payment vouchers.</i></p>	<p><b>Implemented:</b> LBGI has tightened the process to receive complete supporting documents from the fields, but there still remains the difficulty of obtaining complete documentation for expenditures in remote areas.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and recommendations	Progress By LBGI management
<p><b>MA-5</b>    <b>Quotations not obtained for procurements in line with the procurement policy of LBGI</b></p> <p><i>Procurement policy related to obtaining quotations should be properly implemented.</i></p>	<p><b>Implemented:</b> As per policy, any procurement above US\$ 2,500 requires that at least 3 quotations should be obtained. Except for procurement instances where it is not practical to obtain 3 quotations; the policy is strictly complied.</p>
<p><b>MA-6</b>    <b>Log not maintained at Project Office in Afghanistan to record invoices received from subcontractors</b></p> <p><i>A subcontractor invoice register should be maintained to keep track of subcontractor's invoices from the stage of their submission up to their final disbursement.</i></p>	<p><b>Implemented:</b> A log is maintained by finance secretary to keep record of all invoices received.</p>
<p><b>MA-7</b>    <b>Payment vouchers and related supporting documents not stamped "PAID"</b></p> <p><i>All payment vouchers and related supporting documents should be stamped "PAID" and the date of payment is marked thereon.</i></p>	<p><b>Implemented:</b> Payment vouchers have been stamped "paid" effective February 2004.</p>
<p><b>MA-8</b>    <b>Detailed budget for REFS Programme not available</b></p> <p><i>A detailed programme budget should be prepared, approved by USAID, and used for budgetary controls for the programme.</i></p>	<p><b>Implemented:</b> Modification 18 to the contract has been signed by USAID and by virtue of this, the budget for REFS has been formally approved.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress by LBGi management
<p><b>MA-9 Computer application susceptible to post processing modifications</b></p> <p><i>The data validation controls should be incorporated in the accounting application to ensure control over post processing modifications.</i></p>	<p><b>Implemented:</b> The computer program has been modified to prohibit changes in recorded data, through user identification and password protections.</p>
<p><b>MA2-1 Policy for recording costs incurred in currencies other than US \$ in Field Cash Report (FCR) not formulated</b></p> <p><i>A currency conversion policy should be formulated, documented, approved and consistently implemented for recording of financial transactions in the FCR.</i></p>	<p><b>Implementation in progress:</b> For expenses incurred in currencies other than US \$, quotations are obtained from the local moneychangers and currency conversion takes place at prevailing rates. Related policy has been drafted and forwarded to the management of LBGi for approval.</p>
<p><b>MA2-2 Proper record for casual labor not maintained</b></p> <p><i>Various levels/categories of casual labour are defined and for each level/category hourly/daily rate or a range of rates is determined and approved. Further, a standard Casual Labour usage Claim Form specifying the activities performed, is developed, approved and implemented.</i></p>	<p><b>Implemented:</b> Policy has already been formulated effective from June 2004. Such policy mentions pre-approved rate for skilled and un skilled casual labor. Further, for casual labor, there is a separate labor usage form specifying the activities performed by the labor force.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

#### Our Observations and Recommendations

#### Progress by LBG I management

- MA2-3 Expense reports submitted by employees not approved**
- All expense reports submitted by the employees of LBG I should be reviewed and approved by the relevant departmental head before processing advance settlement or reimbursement of expenses.*
- Implemented:** The procedure has been revised and now expense reports for expatriate staff are reviewed and paid in Kabul. Payments made by field accountants to CCN (local) staff are reviewed and approved by the finance office in Kabul.
- MA3-1 Expenditure statements prepared at the Kandahar office not properly verified and signed by an authorized official**
- All expenditure statements should be verified by the project accountant before acceptance of such expenditure claims and an authorized LBG I official approve such statements.*
- Implemented:** Payment procedure has been improved. Expenditures statements prepared at the Kandahar office are now verified by Kandahar Admin Officer and approved by Deputy Chief of Party in Kabul.
- MA3-2 Requisitions and Store Receipt and Inspection Reports (RIR) not prepared for material procured in Ghazni**
- All procurements should be made based on approved requisitions and all items received are entered in the stock register through RIRs.*
- Implemented:** System has been improved and no such instances were found where requisition and RIRs for items procured at Ghazni office were not prepared.

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and recommendations	Progress By LBGi management
<p><b>MA4-1 Approval of appropriate official for modifications in employment contracts at Ghazni Office not obtained</b> <i>All amendments to employment contracts are approved by the Administrative Officer, Kabul or the Project Manager.</i></p>	<p><b>Implemented:</b> All the employment contracts whether these are issued for Kabul or other regional offices have now been centralized. All employment contracts are issued by administration department and modifications, if any, are also approved by the administration department.</p>
<p><b>MA4-2 Authority limits for regional offices not defined</b> <i>Policy and authorization limits are formalised in writing for expenditure incurred by regional heads and appropriate approval of such policy and limits is obtained</i></p>	<p><b>Implemented:</b> A procurement policy has been formulated whereby authority limits for all offices including regional offices, have been defined. All small purchases are authorized at field office level whereas all purchases having individual item value of \$ 2,500 and above are approved by the Deputy Chief of Party in the Kabul office.</p>
<p><b>MA5-1 Disbursement prior to approval of payment voucher</b> <i>Funds are disbursed only after the related payment voucher has been approved by the authorized official</i></p>	<p><b>Implemented:</b> All payment vouchers are now approved prior to related disbursements.</p>
<p><b>MA6-1 List not maintained of authorized rent a car dealers, with approved car rent rates</b> <i>A pre-approved listing of rent a car dealers is maintained specifying rent rates for each model and make normally used by LBGi and vehicles are hired on rent only from pre-approved rent a car dealers on pre-approved rent rates.</i></p>	<p><b>Implemented:</b> Most of the vehicles are now being rented from three dealers with pre-approved and fixed rent rates depending on the make and model of cars. Also, LBGi has purchased 25 new armored vehicles.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and recommendations	Progress By LBGi management
<p><b>MA8-1 Differences in the information related to local personnel as per records of the Personnel Department and records maintained by the Finance Department</b></p> <p><i>Personnel information of local staff is updated regularly in relation to personnel files and is agreed with salary records of the Finance Department on a timely basis.</i></p>	<p><b>Implemented:</b> Personal information of local staff has been updated in relation to their personal files and reconciled with related records maintained by the Finance Department.</p>
<p><b>MA8-2 Payment Vouchers in Herat Office not numbered.</b></p> <p><i>All payment vouchers are numbered as referred to the cashbook by their numbers.</i></p>	<p><b>Implemented:</b> With effect from June 1, 2005 all payment vouchers in Herat Office are now numbered and referred to in the cashbook by their numbers.</p>
<b>MB Inventory management</b>	
<p><b>MB-1 Inventory listing not reconciled with the financial records. Receipt and issue documents not prepared</b></p> <p><i>i) Standardized documents should be introduced for all inventory movements, namely:</i></p> <ul style="list-style-type: none"><li><i>a) Good Receiving Note for receipts</i></li><li><i>b) Inventory Requisition Form for issues</i></li><li><i>c) Inventory Transfer Form for transfers</i></li></ul> <p><i>ii) The physical inventory balances should be reconciled with financial records at regular intervals and such reconciliation is documented, reviewed and approved by a representative of the management of LBGi</i></p>	<p><b>Implemented:</b> A standard form, Store Receipt and Inspection Report (RIR), for recording of receipt of inventory items has been designed and implemented. We were informed that physical inventory balances are reconciled with the financial record because they are based on information provided by the Finance Department. On a test-basis, we selected a few items and matched the two records and found them to be accurate. However there is no specific frequency of preparation of such reconciliation. The last reconciliation was done in November, 2004.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBGi management
<p><b>MB-2 Independent physical verification of expendable and non-expendable inventory items not conducted</b></p> <p><i>Physical verification of inventory items should be carried out by officials independent of staff involved in inventory management function, and all findings are properly documented and timely followed up.</i></p>	<p><b>Implemented:</b> Physical verification carried out for all items.</p>
<p><b>MB-3 Subsidiary record not maintained for recording movement of expendable inventory items</b></p> <p><i>A subsidiary record for the movement of inventory items should be maintained and it is reviewed and checked by an appropriate official periodically.</i></p>	<p><b>Implemented:</b> A procedure for recording movement of expendable inventory items in a subsidiary record has been devised and is being implemented.</p>
<p><b>MB7-1 The non-expendable inventory items of REFS currently in USPI's possession have not been physically verified</b></p> <p><i>Periodic physical verification of inventory items in possession of USPI is carried out by officials independent of staff involved in inventory management function, and all findings are properly documented and timely followed up.</i></p>	<p><b>Implementation in progress:</b> Physical verification of items of REFS currently in USPI's possession has been physically verified but related physical verification report was not available for our review.</p>

## Report on Internal Control

### 4.2 Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBGI management
<p><b>MB8-1 Inventory Management procedures not consistently applied at all locations</b></p> <p><i>Inventory management system is consistently enforced at all locations of the REFS Programme.</i></p>	<p><b>Implementation in progress:</b> Inventory codes have been allotted to all inventory items situated at all locations. But pasting of such codes on related inventory items is in progress.</p>
<p><b>MC General</b></p>	
<p><b>MC-1 Inadequate segregation of duties in Computer Information Systems (CIS) department</b></p> <p><i>CIS functions should be segregated among staff members assigned for CIS function and passwords are assigned by only a senior staff member of the management of LBGI in Kabul. Such passwords should be frequently changed.</i></p>	<p><b>Implemented:</b> Segregation of duties has been introduced in the CIS department to the extent possible.</p>

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

**Independent Auditors Report on Compliance**

The Board of Directors  
Louis Berger Group Inc.  
1519 H Street, N.W.  
Washington DC 20006

1. We were engaged to audit the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan executed by the Louis Berger Group, Inc. (LBGI) as per contract no. 306-C-00-02-00500-00 with USAID for the period October 1, 2005 to December 31, 2005 for Contract Line Item No. 1 and have issued our report on that audit dated February 13, 2006.
2. We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Controller General of the United States with the exception that our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization, and for matters referred to in paragraph 4 below. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the amounts reflected in the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00.
3. Compliance with agreement terms and laws and regulations applicable to Louis Berger Group Inc is the responsibility of Louis Berger Group Inc's management. As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, except for the matters referred to in paragraph 4 below, we performed tests of Louis Berger Group Inc's compliance with certain provisions of agreement terms and laws and regulations. Our tests were restricted to information and documents provided by the management of LBGI. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.
4. Material instances of noncompliance are failures to follow requirements or violations of agreement 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 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00. The results of our tests disclosed no instances of noncompliance that are required to be reported here under U.S. Government Auditing Standards during the quarter ended December 31, 2005.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan  
Audit Report No. 11  
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00  
For the period October 1, 2005 to December 31, 2005**

5. Our report has been discussed with the management of LBGI in Kabul. With respect to the 13 instances of non-compliance identified in Audit Report Nos. 1,3, and 4, USAID's Mission has determined that LBGI has (1) taken appropriate actions to comply with the 11 contract clauses identified in Audit Report No.1 and with the annual reporting requirement on non-expendable properties discussed in Audit Report No. 3, and (2) provided to the Mission all the necessary documents to substantiate compliance with requirements on awarding and execution of the 12 subcontracts listed in the Audit Report No.4.
6. This report is intended for the information of USAID and LBGI. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



A. F. Ferguson & Co.  
Chartered Accountants

Date: February 13, 2006  
Islamabad, Pakistan