

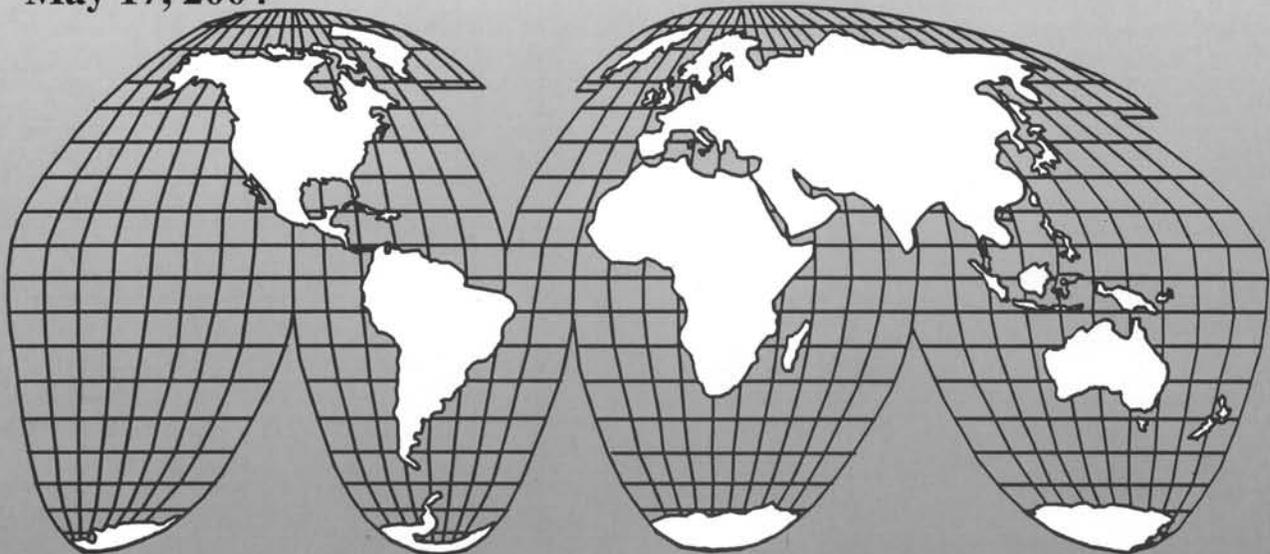
USAID

OFFICE OF INSPECTOR GENERAL

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, 2003 to December 31, 2003

Audit Report No. 5-306-04-004-N

May 17, 2004



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.

Manila, Philippines



**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Office of the Regional Inspector General/Manila**

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May 17, 2004

MEMORANDUM

TO: USAID/Afghanistan Director, James A. Bever

FROM: RIG/Manila, Bruce N. Boyer 

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, 2003 to December 31, 2003; Audit Report No. 5-306-04-004-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, 2003 to December 31, 2003. 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 (RIG/Manila) reviewed the report and found that the audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, except that the audit firm only had a limited continuing education program and did not have an external quality control review conducted by an unaffiliated audit organization.¹ 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.

¹ The audit firm's continuing education program is confined 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 third in a series of up to 15 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 \$863,610 of REFS program costs paid *locally* in Afghanistan by LBGI. Of the audited amount, the auditors identified unsupported questioned costs of \$115,136 which related mainly to transportation, office maintenance, communication, and non-expendable inventory charges.

Concerning LBGI's internal control structure, the auditors identified two material internal control weaknesses: (1) expenditure statements prepared at LBGI's Kandahar office were not reviewed and approved by an authorized official at LBGI's Kabul office, and (2) purchase requisitions and related receiving reports were not prepared for materials procured and received at LBGI's Ghazni office. In addition, the auditors identified one reportable internal control weakness related to LBGI not reconciling the quantity of Chemcrete it procured with the quantity distributed to various subcontractors and the quantity used in road construction.

The auditors noted two material instances of noncompliance. One instance, related to the \$115,136 in questioned costs, was also included in the internal control findings discussed above as well as in the first concurrent audit. Thus, we are not making a separate recommendation on this noncompliance issue. The other instance of material noncompliance related to LBGI not submitting to USAID/Afghanistan an annual report on all nonexpendable property procured with USAID funds as required by USAID acquisition regulations.

A.F. Ferguson & Co. reported that LBGI generally accepted the above audit findings and that LBGI indicated its intention to implement the audit firm's proposed recommendations and to locate documentation for the \$115,136 in unsupported questioned costs.

Regarding prior audit recommendations from the first concurrent financial audit report, the auditors reported that USAID/Afghanistan sustained \$3,882 of the \$29,449 in unsupported questioned costs. The auditors also reported that USAID/Afghanistan determined that LBGI has taken and is taking appropriate actions to correct the 24 internal control findings and the 11 noncompliance findings identified in the report, although final actions have not been taken. For the second concurrent financial audit report, the auditors reported that USAID/Afghanistan is currently evaluating LBGI's corrective actions relating to the questioned costs of \$114,020 and the six internal control weaknesses identified in the report.

Based on our review of the third concurrent financial audit report, we are making the following recommendations for inclusion in the USAID's Consolidated Audit Tracking System (CATS). These recommendations will require management decisions by USAID/Afghanistan.

Recommendation No. 1: We recommend that USAID/Afghanistan determine the allowability and recover, as appropriate, unsupported questioned costs of \$115,136 identified in the Schedule of Local Costs on pages 9 and 10, and further detailed on pages 12 and 13 of the report.

Recommendation No. 2: We recommend that USAID/Afghanistan ensure that the Louis Berger Group Incorporated corrects the two material and one reportable internal control weaknesses identified on pages 16 and 17 and further detailed on pages 29 to 34 of the report.

Recommendation No. 3: We recommend that USAID/Afghanistan ensure that the Louis Berger Group Incorporated institute controls to correct the one material instance of noncompliance regarding an annual report on nonexpendable property, identified on page 36 and further detailed on page 37 of the report.

Please advise within 30 days of the actions planned or taken to implement the recommendations. We appreciate the cooperation and assistance that LBGI and USAID/Afghanistan extended to the auditors 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, 2003 to December 31, 2003

Audit Report No. 3

A.F. FERGUSON & Co.

a member firm of

PRICEWATERHOUSECOOPERS 

May, 2004

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003

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Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

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.



Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

- 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.
- 1.7 Kabul-Kandahar highway which was to be built under Phase 1 of REFS programme has been inaugurated in December 2003. Apart from road construction, work is also in progress on construction and rehabilitation of schools, clinics and irrigation facilities in different provinces of the Afghanistan. 13 Job Orders have been issued by USAID. The budget for clin 1 and clin 2 has been revised to US dollars 500 million.

AA

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003

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.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003**

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. The first quarterly report (Draft Audit Report No. 2) due on October 30, 2003 has been delayed consequent to delay in finalization of initial audit report due to certain changes in the scope of our audit as suggested by CTO.
- 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 billed to USAID by LBGI related to REFS Programme during the quarter October 1, 2003 to December 31, 2003 was US \$ 863,610. The cumulative costs billed to USAID from September 30, 2002 to December 31, 2003 were 2,758,352.
- ii) In the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the quarter October 1, 2003 to December 31, 2003 we have classified US \$ 115,136 as questioned costs out of total costs billed for the said quarter. The costs have been mainly classified as questioned costs due to lack of supporting documentation. The specific type and nature of missing supporting documents have been explained in the notes to the Schedule of local costs billed to USAID on pages 11 to 13 of this report.
- iii) In addition to internal control weaknesses reported in our Audit Report No. 1 and 2 we have noted and reported following reportable condition and material weaknesses:

AFZ

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003

Reportable Condition:

RC3 Inventory Management

RC3-1 Quantity of Chemcrete procured not reconciled with the quantity of Chemcrete consumed for Bitumen produced by sub contractors.

Material Weaknesses:

MA3. Financial Controls

MA3-1 Expenditure statements prepared at Kandahar office not properly verified and signed by an authorized official

MA3-2 Requisitions and Store Receipt and Inspection Reports (RIR) not prepared for material procured in Ghazni

- iv) The results of our compliance tests disclosed that:
- a. adequate supporting documentation required under Federal Acquisition Regulation 52.215-2, in respect of costs aggregating US\$ 115,136 was not available, the effects of which are shown as questioned costs in the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the period October 1, 2003 to December 31, 2003.
 - b. Annual report on all non-expendable property procured from USAID funds, as required under AIDAR 752.245-70 was not submitted.
- v) The management of LBGI has generally accepted the audit findings of our Audit Report No. 3 and have shown their intention to continue with the implementation of proposed recommendations and completion of supporting documentations related to unsupported questioned costs.
- vi) For Audit Report No. 1, the USAID's Mission has sustained \$ 3,882 of the \$ 29,449 in questioned costs, but warned LBGI that in the future, subsequent findings of such unsupported questioned costs shall be unallowable. Also, the Mission determined that LBGI has taken and is taking appropriate actions to correct the 24 internal control findings and to ensure compliance with the 11 contract clauses identified in the report, although final actions to implement the recommendations have not been taken. For Audit Report No. 2, the Mission is currently evaluating LBGI's actions on the findings relating to questioned costs of \$ 114,020 and the six internal control weaknesses.

AAZ

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003**

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, 2003 to December 31, 2003. 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. Accordingly the questioned costs identified by us may not represent all material questioned costs which may be included in the Schedule. The results of our tests disclosed that adequate supporting documentation was not available in respect of costs aggregating US \$ 115,136 identified in the Schedule. Similar issues have also been reported in paragraph 4 of our report on compliance and related material internal control weaknesses have been reported in our report on internal control.
4. The above mentioned reported matter has been discussed with the management of LBGI in Kabul and with the controller of LBGI in Washington. All written comments provided by the management of LBGI to-date have been adequately considered while finalizing this report.

A.F.F.

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003

5. In accordance with the U.S. Government Auditing Standards, we have also issued our reports dated May 6, 2004 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: May 6, 2004
Islamabad, Pakistan

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 01, 2003 to December 31, 2003

Budget	Actual Costs			Questioned Costs		Notes
	Prior period September 30, 2002 to September 30, 2003	Current period October 1, 2003 to December, 31 2003	Cummulative upto December 31, 2003	Ineligible costs for current period	Unsupported costs for current period	

US\$

COSTS INCURRED

Contract Line Item No. 01

Salaries

Salaries and wages

Long term technical - Expatriate	-	-	-	-	-
Long term technical - Cooperating Country Nationals (CCN)	116,950	68,869	185,819	-	-
Short term technical - Expatriate	-	-	-	-	-
Short term technical - Cooperating Country Nationals - (CCN)	4,480	-	4,480	-	-
Local personnel	206,310	77,444	283,754	-	-
Sub-total	-	327,740	146,313	474,053	-

Overseas allowances

Separate maintenance allowances	26,974	38,243	65,217	-	-
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Transportation

International travel	20,351	11,838	32,189	-	2,338	4
Per diem	35,239	65,750	100,989	-	30,757	5
Local travel	30,665	57,034	87,699	-	29,341	6
Vehicle maintenance	23,248	12,335	35,583	-	1,271	7
Miscellaneous travel expenses	4,477	2,303	6,780	-	-	
Total	-	113,980	149,260	263,240	-	63,707

Non-expendable inventory

Equipment	193,575	31,855	225,430	-	1,260		
Machinery	30,730	67,770	98,500	-	-		
Vehicles	203,000	-	203,000	-	-		
Furniture and fixtures	31,600	-	31,600	-	-		
Leasehold improvements	31,978	35,288	67,266	-	7,742		
Total	-	490,883	134,913	625,796	-	9,002	8
Sub total carried forward		959,577	468,729	1,428,306	-	72,709	

The annexed notes form an integral part of this schedule

AAZ

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 01, 2003 to December 31, 2003

	<u>Budget</u>	<u>Actual Costs</u>			<u>Questioned Costs</u>		<u>Notes</u>
		Prior period September 30, 2002 to September 30, 2003	Current period October 1, 2003 to December, 31 2003	Cummulative upto December 31, 2003	Ineligible costs for current period	Unsupported costs for current period	
US\$							
Sub total brought forward		959,577	468,729	1,428,306	-	72,709	
<u>Office maintenance</u>							
Housekeeping services		25,219	13,818	39,037	-	-	
Office supplies		78,384	33,552	111,936	-	4,862	
House hold effects		19,469	30,772	50,241	-	4,325	
Others		64,866	59,240	124,106	-	8,240	
Total	-	187,937	137,382	325,320	-	17,427	9
<u>Communication</u>							
Phones		43,100	16,029	59,129	-	-	
Internet		66,729	29,674	96,403	-	15,957	
Courier		11,711	10,630	22,341	-	-	
Total	-	121,540	56,333	177,873	-	15,957	10
<u>Technical contracts</u>							
Management		-	-	-	-	-	
Roads		-	10,192	10,192	-	-	
Schools		52,197	-	52,197	-	-	
Medical		9,746	-	9,746	-	-	
Agriculture		-	-	-	-	-	
Total	-	61,943	10,192	72,135	-	-	
<u>Other direct costs</u>							
Office rent		348,444	120,000	468,444	-	-	
Bank charges		491	-	491	-	-	
Other labor costs		30,279	1,987	32,266	-	-	
Publications		3,471	1,805	5,276	-	-	
Others		44,149	3,777	47,926	-	514	
Total	-	426,834	127,569	554,403	-	514	11
Total costs incurred	-	1,757,831	800,205	2,558,037	-	106,607	
Programme support fee 8%	-	135,671	63,201	198,872	-	8,529	12
Fixed fee on subcontracts 2%	-	1,239	204	1,443	-	-	
Total costs incurred in CLIN 1	500,000,000	1,894,742	863,610	2,758,352	-	115,136	

The annexed notes form an integral part of this schedule

Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

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.

3. Budgetary allocations for the REFS contract

The budget allocation of US \$ 500 million is based on modification number 9 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	50,000,000
Contract Line Item Number 2	450,000,000
	<u>500,000,000</u>



Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003

4. International Travel

Travel authorization and detailed trip reports were not available in respect of international travel costs of US \$ 2,338. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

5. Per diem

Travel authorization and detailed trip reports were not available in respect of per diem costs of US \$ 30,757. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

6. Local travel

In country travel forms, detailed trip reports and authorized and verified expense statements were not available in respect of local travel expenses of US \$ 29,341. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1 and MA3-1 of our current internal control report.

7. Vehicle maintenance

Approved requisition and payee's acknowledgement were not available in respect of non-expendable inventory items procured during the period at aggregate cost of US \$ 1,271. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1.

8. Non-expendable inventory

Purchase requisition, Store Receipt and Inspection Reports (RIR) and payee's acknowledgement were not available in respect of non-expendable inventory items procured during the period for US \$ 9,002. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1 and MA3-2 of our current internal control report.

9. Office maintenance

Purchase requisition, quotations, Store Receipt and Inspection Reports (RIR) and payee's acknowledgement were not available in respect of office maintenance costs of US \$ 17,427. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

APR

Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

10. Communication

Purchase requisition and Store Receipt and Inspection Reports (RIR) were not available in respect of communication costs of US \$ 15,957. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1.

11. Other direct costs

Purchase requisition and Store Receipt and Inspection Reports (RIR) were not available in respect of other direct costs of US \$ 514. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1.

12. Programme support fee

Programme support fee has been charged at the rate of 8% of costs incurred under Contract Line Item Number 1 other than costs related to technical contracts. Programme support fee of US \$ 8,529 related to the questioned costs have been classified as questioned cost.

Management comments on questioned costs

With respect to questioned costs identified in the Draft Audit Report No. 3, (\$106,606 plus fee), we point out that the period covered was for expenditure predominately made in 2003 and before any of the PwC audit reports were issued. Therefore, these costs were incurred prior to any action on LBG's part to correct identified weaknesses in procedures and documentation. However, we continue to maintain that the supports available adequately substantiate the validity and allowability of the expenditures, and we welcome the opportunity to demonstrate our position and the existing documentation to USAID/Afghanistan and PwC-Ferguson.

Auditors comments

The questioned costs reported as part of this audit report have been identified in accordance with US Government Auditing Standards, related USAID Regulations and Federal Acquisition Regulations. The costs classified as unsupported include expenditures for which authorization of incurrence and documents evidencing receipt of items procured were not available. Further, questioned costs also include transactions for which LBGI's own internal control procedures have not been complied with.

We reiterate that if LBGI provides any additional supporting documentation related to questioned costs reported in our audit reports issued to-date, we will report availability of such additional supporting documentation in our subsequent reports.



**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003**

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, 2003 to December 31, 2003 and have issued our report on it dated May 6, 2004.
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.
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 LBGI for the period October 1, 2003 to December 31, 2003, 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.

Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

5. We noted certain matters, listed below, involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). Following reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedule, had been reported in our Audit Report Nos. 1 & 2.

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

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 internally 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

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 and is taking appropriate actions to correct the 11 reportable internal control findings identified in Audit Report No. 1, although final actions to implement the recommendations have not been taken. The Mission is currently evaluating LBGi's actions on the three reportable internal control weaknesses identified in Audit Report No. 2.

AFF

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003

6. In addition to the above mentioned reportable conditions we have noted following additional reportable conditions during the course of Audit No. 3.

RC3 Inventory Management

RC3-1 Quantity of Chemcrete procured not reconciled with the quantity of Chemcrete consumed for bitumen produced by sub-contractors

The above mentioned reportable condition has been explained in detail in section 4.3 of this report.

7. 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.
8. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted and reported following matters involving the internal control structure and its operations in our Audit Report Nos. 1 & 2 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, 2003 to December 31, 2003. 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

APF

Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

- MA-6 Log not maintained at Project Office in Afghanistan to record invoices received from subcontractors
- 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

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

MC. General

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

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 and is taking appropriate actions to correct the 13 material internal control findings identified in Audit Report No. 1, although final actions to implement the recommendations have not been taken. The Mission is currently evaluating LBGI's actions on the three material internal control weaknesses identified in Audit Report No. 2.

- 9. In addition to the above mentioned material weaknesses we have noted following additional material weaknesses during the course of Audit No. 3.

MA3. Financial Controls

- MA3-1 Expenditure statements prepared at Kandahar office 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

The above mentioned material weaknesses have been explained in detail in section 4.4 of this report.

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan

Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

10. 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.

11. 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: May 6, 2004
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 are classified in line with heads of account used for preparation of the current Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00.

Financial transactions are still not classified at adequate detailed level, however, LBGI's controller in Washington has informed us that the new Project Controller for Kabul office, who has joined in February, 2004, will address this matter.

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

The mobile telephone company is required to provide activity details on monthly basis so that personal use of communication facilities could be identified.

LBGI Kabul has requested Afghan Wireless Communication Company (AWCC) the cellular communication company in Afghanistan to provide call-wise detailed listing for each subscribed connection. Procedure for utilization of the requested information for segregation of personal and official calls will be reviewed in the next quarterly audit.

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

Guest house registers are maintained in which particulars of occupants are recorded on timely basis and it is monitored by an authorized representative of LBGI.

Guest House registers have been introduced by Administration Officer of LBGI in Afghanistan but completeness of all required information in the register and its use for effective control is still needs to be ensured.

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

RA2-1 Lack of documentation related to dependents of expatriate staff members

Complete, verified information of the number of dependants of each expatriate staff member is maintained in the personal file of each employee.

Declaration from each expatriate staff member relating to their number of dependents has been obtained.

RA2-2 Project manager approved his own expenses

Expense reports of the project manager are approved by an independent official designated for this purpose.

LBGI has established a policy for approvals. 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 is authorized to approve 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.

RB Human resource management

RB-1 Human resource policies for local Afghan staff members not defined

Separate personnel policies for local Afghan staff members are prepared, approved and applied, for dealing with matters related to local Afghan staff members.

LBGI's Controller in Washington has informed us that an employee handbook for local Afghan Staff members have been formulated, but a copy of such handbook has not been provided to us.



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
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RB-2 Timesheets of local Afghan staff members prepared by the Project Accountant

All staff members irrespective of their origin prepare their monthly time sheets / activity reports which timesheets are reviewed and signed by their immediate supervisor.

LBGI's management in Kabul has initiated an attendance logbook which is filled by the local Afghan staff members. Based on their attendance log, the Project Accountant fills the timesheets of each local Afghan staff member and get them signed by the related staff members before disbursement of their monthly salary. As per Administrative Officer of LBGI in Afghanistan this practice has been adopted to ensure timely completion of required documentation and accuracy of information reported in timesheets.

RB2-1 Timesheets, attendance records and leave records internally not consistent

All timesheets, attendance records and leave records are regularly reviewed by an appropriate independent official on timely basis to ensure that these are internally consistent.

LBGI is in the process of reviewing leave and accounting system and will provide the revised policy and system when these are completed.

RC Inventory Management

RC-1 Policy for classification of procured items as non-expendable not complied with

The project accountant ensures that all procurements having unit cost of US \$ 300 or above items having useful life of more than one year are classified as fixed assets.

A list of all items having unit cost of US\$500 or more and having useful life in excess of two years is in the process of compilation in accordance with the requirements of USAIDAR 752.245.70.



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>RC-2 Adequate information not available in non-expendable inventory listing</p> <p><i>Detailed subsidiary record of non-expendable inventory is maintained encompassing all information elements listed in criteria above.</i></p>	<p>A list of all items having a unit cost value of US\$ 500 or more and having useful life in excess of two years is in process of compilation in accordance with the requirements of USAIDAR 752.245.70. The contents of this listing now includes 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>RC-3 Expendable and non-expendable inventory items not segregated</p> <p><i>Each payment voucher for procurement of goods is marked with classification of inventory items procured and inventory listing is maintained separately for expendable and non-expendable inventory.</i></p>	<p>Same as RC-2 above.</p>
<p>RD General</p>	

<p>RD-1 Policy for related party transactions not formulated</p> <p><i>A related party detection and monitoring policy is 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>No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGI on the progress related to this recommendation.</p>
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Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

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**

- RD-2 Lack of physical controls over computer peripherals** An inventory movement/transfer form has been introduced to control physical movements. Effective implementation of this form still needs to be ensured.
- Standard documents are prepared for recording of all physical movements relating to computer peripherals.*
- RD-3 Lack of password controls** 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.
- Passwords are used for effective control over areas identified above and all unauthorized access attempts are timely checked.*

Material Weaknesses

MA Financial Controls

- MA-1 Lack of segregation of functions related to approval of expenditure and disbursement** A position for the cashier has been created and procedures for cash dealings have been developed. A cashier room has also been constructed. The new project controller now verifies and approves each local expenditure. The chief accountant oversees entry in the FCR.
- Approval and payment functions should be performed by persons independent of each other.*
- MA-2 Cash handling function not independent of the recording function** Same as MA-1 above.
- Cash handling function is performed by an official independent of the official responsible for recording of such transactions.*

AFF

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>MA-3 Lack of segregation of duties in payroll processing function at Kabul office</p> <p><i>Payroll disbursement function should be separated from the function of preparation of payroll.</i></p>	<p>The process was modified. Now the employee and supervisor fill out and certify the timesheets. The project accountant prepares the detailed payroll, whereas project controller approves it and chief accountant oversees the distribution of salary payments.</p>
<p>MA-4 Supporting documents not available for certain disbursements</p> <p><i>Supporting documents are not obtained in respect of all payments.</i></p>	<p>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 incurred in remote areas.</p>
<p>MA-5 Quotations not obtained for procurements in line with the procurement policy of LBGi</p> <p><i>Procurement policy related to obtaining quotations should be properly implemented.</i></p>	<p>No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGi on the progress related to this recommendation.</p>
<p>MA-6 Log not maintained at Project Office in Afghanistan to record invoices received from subcontractors</p> <p><i>A subcontractor invoice register is maintained to keep track of subcontractors invoices from the stage of their submission up to their final disbursement.</i></p>	<p>No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGi on the progress related to this recommendation.</p>
<p>MA-7 Payment vouchers and related supporting documents not stamped "PAID"</p> <p><i>All payment vouchers and related supporting documents are stamped "PAID" and the date of payment is marked thereon.</i></p>	<p>No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGi on the progress related to this recommendation.</p>

AF

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>MA-8 Detailed budget for REFS Programme not available</p>	<p>LBGI's Controller in Washington has informed us that the detailed budget for REFS Programme has been discussed in March 2004 which is yet to be approved by USAID.</p>
<p><i>A detailed programme budget is prepared, approved by USAID, and used for budgetary controls for the programme.</i></p>	
<p>MA-9 Computer application susceptible to post processing modifications</p>	<p>The computer program has been modified to prohibit changes in recorded data.</p>
<p><i>The data validation controls are incorporated in the accounting application to ensure control over post processing modifications.</i></p>	
<p>MA2-1 Policy for recording costs incurred in currencies other than US \$ in Field Cash Report (FCR) not formulated</p>	<p>No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGI on the progress related to this recommendation.</p>
<p><i>A currency conversion policy is formulated, documented, approved and consistently implemented for recording of financial transactions in the FCR.</i></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
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MA2-2 Proper record for casual labor not maintained

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.

No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGI on the progress related to this recommendation.

MA2-3 Expense reports submitted by employees not approved

All expense reports submitted by the employees of LBGI are reviewed and approved by the relevant departmental head before processing advance settlement or reimbursement of expenses.

No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGI on the progress related to this recommendation.



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**

MB Inventory management

MB-1 Inventory listing not reconciled with the financial records. Receipt and issue documents not prepared

A standard Store Receipt and Inspection Report (RIR) form, for recording of receipt of inventory items, has been designed and implemented.

- i) Standard documents are introduced for all inventory movements, namely:
 - a) Good Receiving Note for receipts*
 - b) Inventory Requisition Form for issues*
 - c) Inventory Transfer Form for transfers**
- ii) The physical inventory balances are reconciled with financial records at regular intervals and such reconciliation is documented, reviewed and approved by a representative of the management of LBGI.*



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

MB-2 Independent physical verification of expendable and non-expendable inventory items not conducted

Physical verification of inventory items is carried out by officials independent of staff involved in inventory management function, and all findings are properly documented and timely followed up.

No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGI on the progress related to this recommendation.

MB-3 Subsidiary record not maintained for recording movement of expendable inventory items

A subsidiary record for the movement of inventory items is maintained and it is reviewed and checked by an appropriate official periodically.

No progress was noted by us during the course of our field work for Audit No. 3. Further, no feed back has been reported by LBGI on the progress related to this recommendation.

MC General

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

CIS functions are 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.

Some segregation of duties have been introduced in the CIS department which still need to be properly implemented.



Report on Internal Control

4.3 Reportable conditions

RC. Inventory Management

RC3-1 Quantity of Chemcrete procured not reconciled with the quantity of Chemcrete consumed for Bitumen produced by sub-contractors

Condition:

The quantity of Chemcrete procured was not reconciled with production of Bitumen by various sub-contractors and its subsequent consumption for construction of the road.

Criteria:

The quantity of Chemcrete procured, Bitumen produced and consumed in road construction is properly reconciled so that proper utilization of raw material could be ensured and effective control over production costs of sub-contractors could be placed.

Cause:

Lack of documentary control on physical movement of Chemcrete, Bitumen production and its consumption by sub-contractors.

Effect:

Proper control over production and utilization of Chemcrete cannot be ensured.

Recommendation:

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.



Report on Internal Control

4.3 Reportable conditions

RC. Inventory Management

RC3-1 Quantity of Chemcrete procured not reconciled with the quantity of Chemcrete consumed for Bitumen produced by sub-contractors

Management Comments:

The REFS-Kabul office has procurement and receiving documents available to support what quantities of Chemcrete were procured and initially received. The documents supporting the use and residual inventory are maintained at the field storage location outside of Kabul. The General Superintendent for Roads was on leave when the issue became known and we are awaiting his return (27/4) to request that he provides the details and support to confirm usage and balances.

Auditor's Comments:

We will review the compliance of our recommendation in Audit No. 4.



Report on Internal Control

4.4 Material weaknesses

MA. Financial Controls

MA3-1 Expenditure statements prepared at Kandahar office not properly verified and signed by an authorized official

Condition:

Most of the expenditure at the Kandahar office was incurred against advance received from Kabul office. LBGI's representatives in Kandahar submit expenditure statements to settle these advances. Such expenditure statements when received in Kabul are not checked and authorized by any official.

Criteria:

All expenditure statements should be properly verified with respect to completeness of supporting documents, account allocation, accuracy of recording and validity of expenses claimed in relation to the REFS programme. Subsequent to verification an authorized representative of LBGI should approve the expenditure statement.

Cause:

Lack of defined process for verification and authorization.

Effect:

Unauthorized expenditures may be claimed and accepted.

Recommendation:

All expenditure statements are verified by project accountant, before acceptance of such expenditure claims and an authorized representative of LBGI approve all such statements.



Report on Internal Control

4.4 Material weaknesses

MA. Financial Controls

MA3-1 Expenditure statements prepared at Kandahar office not properly verified and signed by an authorized official

Management Comments:

The audit period covers invoices submitted to USAID between October 1 and December 31, 2003. There are, in fact, cases during that period where full documentation, review and approval were not achieved. During that period the office in Kandahar was being established and procedures defined. However, we believe the existing documentation provides sufficient support to validate the payments. Additionally, LBG-Kabul has significantly modified procedures in Kandahar and has assigned an expatriate Admin Officer to manage and approve Kandahar operations. Current procedures ensure full documentation and effective oversight and approval of expenditures.

Auditor's Comments:

We will review the compliance of our recommendation in Audit No. 4.



Report on Internal Control

4.4 Material weaknesses

MA. Financial Controls

MA3-2 Requisitions and Store Receipt and Inspection Reports (RIR) not prepared for material procured in Ghazni

Condition:

Requisitions and Store Receipt and Inspection Reports (RIR) were not prepared for procurements of both expendable and non-expendable inventory items in Ghazni office.

Criteria:

All purchase orders should be issued based on identified needs through approved requisitions and receipt of procured items should be properly documented in the form of RIRs.

Cause:

Lack of professionally trained staff members in Ghazni.

Effect:

Completeness of procurement cycle in Ghazni cannot be ensured.

Recommendation:

All procurements are made based on approved requisitions and all items received are entered in the stock register through RIRs.



Report on Internal Control

4.4 Material weaknesses

MA2. Financial Controls

MA3-2 Requisitions and Store Receipt and Inspection Reports (RIR) not prepared for material procured in Ghazni

Management Comments:

The audit period covers invoices submitted to USAID between October 1 and December 31, 2003. There are cases during that period where full documentation was not completed. However, we believe the existing documentation provides sufficient support to validate the payments. Additionally, LBG-Kabul has significantly modified procedures for Ghazni and provided additional training to the Afghan Admin Manager. Current procedures ensure full documentation and effective oversight and approval of expenditures.

Auditors Comments:

We will review the compliance of our recommendation in Audit No. 4.



**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 3
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period October 1, 2003 to December 31, 2003**

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, 2003 to December 31, 2003, and have issued our report on that audit dated May 6, 2004.
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 compliance tests disclosed that:

AFF

Audit Report No. 3

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00

For the period October 1, 2003 to December 31, 2003

- a. Adequate supporting documentation required under Federal Acquisition Regulation 52.215-2, in respect of costs aggregating US\$ 115,136 was not available, the effects of which are shown as questioned costs in the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the period October 1, 2003 to December 31, 2003.
 - b. Annual report on all non-expendable property procured from USAID funds, as required under AIDAR 752.245-70 was not submitted (for details please refer to section 5.2 of this report).
5. We considered these material instances of noncompliance and non-availability of information and documents referred to in paragraph 4 above in preparing our report on the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the period October 1, 2003 to December 31, 2003 (the Schedule), in accordance with the terms of the agreement and in conformity with the basis of preparation of the Schedule described in note 2 to the Schedule, and the effect of these instances have been included as questioned costs in our report on the Schedule dated May 6, 2004.
6. All the above-mentioned issues have been discussed with the management of LBGI in Kabul. Further, we reviewed written comments from the management of LBGI in Kabul on our list of clauses for which related compliance could not be performed due to non-availability of related information and documents. All such comments were discussed in detail with the management of LBGI in Kabul during our meeting held on January 12, 2004. Based on our discussion referred to above, LBGI is required to provide details to substantiate compliance with the clauses listed in section 5.3 of this report. Due to little time gap between finalization of Audit Report No. 2 and this report we have not received the related details to substantiate the compliance with the clauses listed in section 5.3, consequently, compliance with the related contract clauses cannot be ensured. As part of our audit fieldwork for Audit No. 4, we will again try to obtain and review the related documentation so that status of compliance could be assessed. On the other hand, the USAID's Mission has determined that LBGI has taken and is taking appropriate actions to ensure compliance with the 11 contract clauses listed in section 5.3 of this report, although final actions to implement the recommendations have not been taken.
7. 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: May 6, 2004
Islamabad, Pakistan

Report on Compliance

5.2 Material Instance of Non-compliance

Annual report on all non-expendable property procured from USAID funds, as required under AIDAR 752.245-70 was not submitted

Condition:

We have not seen any evidence relating to submission of annual report on all non-expendable property in a form and manner as explained in AIDAR 752.245-70.

Criteria:

LBGI was required to submit an annual report on all non-expendable property in a form and manner acceptable to USAID substantially as explained in AIDAR 752.245-70.

Cause:

Incomplete inventory management records.

Effect:

Non-compliance of USAID regulations.

Recommendation:

A comprehensive list of all non-expendable inventory items procured through USAID funds under contract No. 306-C-00-02-00500-00 is prepared in accordance with the format prescribed in AIDAR 752.245-70 and the same is forwarded to USAID at the end of each year.

Management Comments:

A list of non-expendable inventory items has been submitted to USAID through LBGI's Head Quarters in January 2004.

Auditor's Comments:

We will review the list of non-expendable inventory submitted by LBGI in Audit No. 4



5.3 Contract clauses for which related compliance could not be performed due to non-availability of related information and documents

Contract Clause Ref	Compliance Step
Section C- (a)	<p>Implementation Plan - Has LBGI developed an implementation plan and schedule that will assure to the maximum extent possible the necessary performance and input for all parties to complete the programme on time and within budget?</p> <p>Does the plan include scope, budget, schedule, approvals, relationships, controls, and resource allocations?</p>
Section C(d)	<p>In determining the qualification of the local organization is consideration given to construction experience, prior work in the area, knowledge of customs and practices of the area, ability to muster equipment, ability to muster skilled and unskilled labor, and relevant certifications and licensing?</p> <p>Has LBGI submitted a contractor selection manual that contains proposed procedures and criteria to USAID for approval?</p>
Section C(e)	<p>Cost Control Reporting System - Has LBGI developed a cost control reporting system including financial data required by the management team to monitor progress of cost versus budget for each task and project in the total program?</p> <p>Does the reporting system include "look ahead" schedules, "earned value" analysis, and "what if" scenarios</p>
Section C(f)	<p>Quality Control (QCP) and Quality Assurance (QAP) Programs - Has LBGI submitted a QCP to USAID, and have its subcontractors established QAPs which LBG audits?</p>
Section C(h)	<p>Demining - Does LBGI have Defense Base Act (DBA) insurance along with other "all risk" policies (this cost shall be reimbursable provided it is reasonable)?</p>
Section C(i)	<p>LBGI Construction Manual - Does each subcontractor have a copy of the manual in a language they understand?</p>
Section C(k)	<p>Construction Risk Management Program (CRMP) - Has LBGI submitted to USAID a Construction Risk Management Program which includes survey, measurement and recording of ground and structural elevations, ground water levels, soil conditions, and vertical alignment of structures, as appropriate for the project? Was a log of base line conditions maintained with values and photos for comparison with previous values recorded? Are these logs regularly reviewed and major changes discussed with the subcontractor and USAID?</p>

5.3 Contract clauses for which related compliance could not be performed due to non-availability of related information and documents

Contract Clause Ref	Compliance Step
Section C(l)	Notices to Proceed and to Commence - Has LBGI issued notices to proceed and commence work after LBGI has approved subcontractor's QAP and CRMP?
Section C(r)	Inspection Measurement and Construction Monitoring – Did LBGI monitor to verify that work is executed in accordance with contract provisions and is consistent with good engineering practices as per the contractual procedures?
Section C(t)	Determinations, Certifications and Payments - Are all final payments to subcontractors reviewed and certified by LBGI Are final reports of subcontractors submitted to USAID along with the Site Completion Report?
Section C(u)	Changes and Claims - Is there a variation order policy established? Were variation orders presented to USAID for approval? Does each contract contain a clause for dispute resolution?

AAZ