

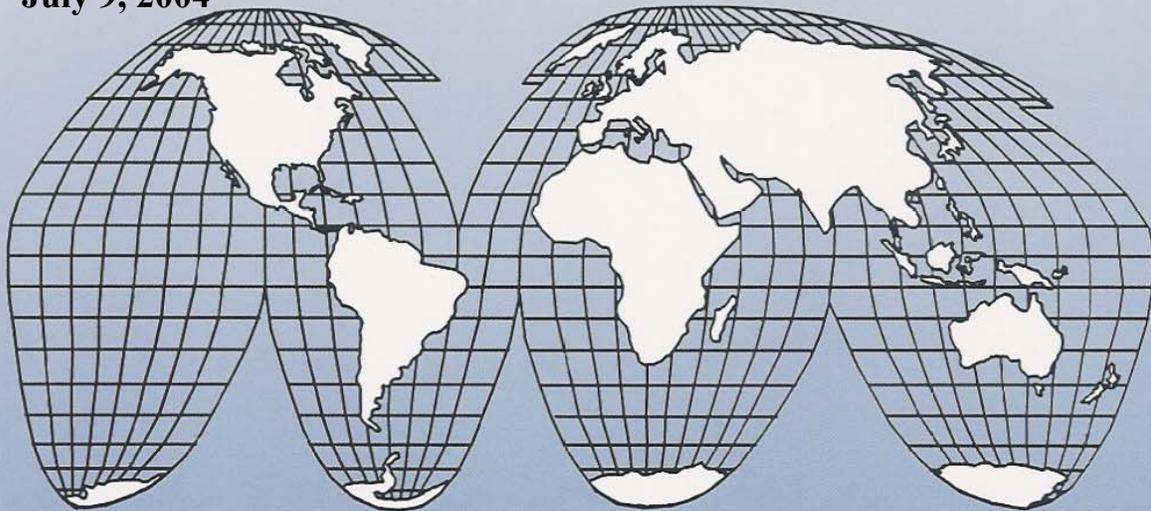
USAID

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 January 1, 2004 to March 31, 2004

Audit Report No. 5-306-04-005-N

July 9, 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

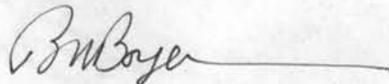
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July 9, 2004

MEMORANDUM

TO: USAID/Afghanistan Director, Patrick Fine

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 January 1, 2004 to March 31, 2004; Audit Report No. 5-306-04-005-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 January 1, 2004 to March 31, 2004. 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 fourth 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 \$1,578,442 of REFS program costs paid *locally* in Afghanistan by LBGI. Of the audited amount, the auditors identified unsupported questioned costs of \$137,596 which related mainly to transportation, office maintenance, non-expendable inventory charges, and other direct costs.

Concerning LBGI's internal control structure, the auditors identified two material internal control weaknesses: (1) salaries of employees at LBGI's Ghazni office were amended by the office head without obtaining approval from the authorized official at LBGI's Kabul office, and (2) expense authorization limits for LBGI's Kandahar and Ghazni offices were not defined.

The auditors noted one material instance of noncompliance associated with unsupported questioned costs, which was also included in the internal control findings discussed in previous concurrent audits. Thus, we are not making a separate recommendation on this noncompliance issue. The auditors also identified 12 subcontracts for which compliance testing on subcontract awarding and execution could not be performed because of the lack of documents such as subcontracts, progress reports, supervision reports, and invoices. We consider this to be a material instance of noncompliance; therefore we are making a recommendation for corrective action.

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 \$137,596 in unsupported questioned costs.

Regarding prior audit recommendations from the first and second concurrent financial audit reports, the auditors reported that USAID/Afghanistan sustained \$3,882 of the \$29,449, and \$13,001 of the \$114,020 in unsupported questioned costs, respectively. The auditors also reported that USAID/Afghanistan determined that LBGI has taken and is taking appropriate actions to correct the 30 internal control findings and the 11 noncompliance findings identified in the reports, although final actions have not yet been taken. For the third concurrent financial audit report, the auditors reported that USAID/Afghanistan is currently evaluating LBGI's actions relating to the questioned costs of \$115,136 and the three internal control weaknesses identified in the report.

Based on our review of the fourth 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, questioned costs of \$137,596 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 internal control weaknesses identified on page 18 and further detailed on pages 31 to 34 of the report.

Recommendation No. 3: We recommend that USAID/Afghanistan ensure that the Louis Berger Group Incorporated provides documents to substantiate compliance with requirements on awarding and execution of the 12 subcontracts listed in Section 5.3 of the report (pages 39 and 40).

Please advise within 30 days of the actions planned or taken to implement the recommendations. We appreciate the cooperation and assistance that LBG I 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 January 1, 2004 to March 31, 2004

Audit Report No. 4

A.F. FERGUSON & Co.

a member firm of

PRICEWATERHOUSECOOPERS 

June, 2004

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**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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.

AF

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

- 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.

MJ

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004

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. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 billed to USAID by LBGi related to REFS Programme during the quarter were US\$ 1,578,442.
- ii) In the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the quarter we have classified US \$ 137,596 as unsupported costs out of total costs billed for the said quarter. These costs have been mainly classified as unsupported 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 14 of this report.
- iii) In addition to internal control weaknesses reported in our Audit Report Nos. 1 to 3 we have noted and reported following material weaknesses for the current period:

APZ

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

MA4. Financial Controls

- 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
- iv) The results of our compliance tests for the quarter disclosed that adequate supporting documentation required under Federal Acquisition Regulation 52.215-2, in respect of costs aggregating US\$ 137,596 was not available, the effects of which are shown as unsupported costs in the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the period January 1, 2004 to March 31, 2004.
- v) LBGI is required to provide sub-contracts and other related documentation such as progress reports, invoices, etc. related to sub-contractors selected by us on sample basis to review the level of compliance in awarding and execution of sub-contracts. We have not received related details to substantiate the compliance with sub-contracts listed in section 5.3 of this report. Consequently, the compliance with related sub-contracts cannot be ensured.
- vi) The management of LBGI has generally accepted the audit findings of our Audit Report No. 4 and have shown their intention to continue with the implementation of proposed recommendations and completion of supporting documentation related to unsupported questioned costs.
- vii) For Audit Report Nos. 1 and 2, the USAID's Mission has sustained \$ 3,882 of the \$ 29,449 and \$ 13,001 of the \$ 114,020 in questioned costs respectively, 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 30 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. 3, the Mission is currently evaluating LBGI's actions on the findings relating to questioned costs, internal control weaknesses and non-compliance.

AFJ

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 January 1, 2004 to March 31, 2004. 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 \$ 137,596. These costs have been classified as unsupported costs 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 matters have 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.



Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004

5. In accordance with the U.S. Government Auditing Standards, we have also issued our reports dated June 25, 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: June 25, 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 January 01, 2004 to March 31, 2004

Budget	Actual Costs			Questioned Costs		Note
	Prior period September 30, 2002 to December 31, 2003	Current period January 1, 2004 to March 31, 2004	Cummulative upto March 31, 2004	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)	185,819	163,526	349,345	-	554	
Short term technical - Expatriate	-	-	-	-	-	
Short term technical - Cooperating Country Nationals - (CCN)	4,480	-	4,480	-	-	
Local personnel	283,754	232,497	516,251	-	1,700	
Sub-total	-	474,053	396,023	870,076	-	2,254 4

Overseas allowances

Separate maintenance allowances	65,217	91,940	157,157	-	1,100	5
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Transportation

International travel	32,189	41,012	73,201	-	8,629	6
Per diem	100,989	156,585	257,574	-	27,935	7
Local travel	87,699	168,635	256,334	-	22,552	8
Vehicle maintenance	35,583	5,098	40,681	-	1,235	9
Miscellaneous travel expenses	6,780	1,027	7,807	-	-	
Total	-	263,240	372,359	635,599	-	60,351

Non-expendable inventory

Equipment	225,430	17,230	242,660	-	2,070	
Machinery	98,500	-	98,500	-	-	
Vehicles	203,000	-	203,000	-	-	
Furniture and fixtures	31,600	-	31,600	-	-	
Leasehold improvements	67,266	38,939	106,205	-	19,053	
Total	-	625,796	56,169	681,965	-	21,123 10

Sub total carried forward 1,428,306 916,491 2,344,797 - 84,827

The annexed notes forms an intergral part of this schedule

APB

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 January 01, 2004 to March 31, 2004

	<u>Budget</u>	<u>Actual Costs</u>			<u>Questioned Costs</u>		Note
		Prior period September 30, 2002 to December 31, 2003	Current period January 1, 2004 to March 31, 2004	Cummulative upto March 31, 2004	Ineligible costs for current period	Unsupported costs for current period	
US\$							
Sub total brought forward		1,428,306	916,491	2,344,797	-	84,827	
Office maintenance							
Housekeeping services		39,037	36,449	75,486	-	-	
Office supplies		111,936	68,182	180,118	-	5,321	
House hold effects		50,241	84,840	135,081	-	12,035	
Others		124,106	87,601	211,707	-	11,199	
Total	-	325,320	277,072	602,392	-	28,555	11
Communication							
Phones		59,129	26,045	85,174	-	3,202	
Internet		96,403	54,329	150,732	-	-	
Courier		22,341	13,124	35,465	-	901	
Total	-	177,873	93,497	271,370	-	4,102	12
Technical contracts							
Management		-	-	-	-	-	
Roads		10,192	13,940	24,132	-	-	
Schools		52,197	-	52,197	-	-	
Medical		9,746	-	9,746	-	-	
Agriculture		-	858	858	-	-	
Total	-	72,135	14,798	86,933	-	-	
Other direct costs							
Office rent		468,444	103,800	572,244	-	-	
Bank charges		491	112	603	-	-	
Other labor costs		32,266	14,646	46,912	-	4,352	
Publications		5,276	9,859	15,135	-	-	
Others		47,926	32,067	79,993	-	5,568	
Total	-	554,403	160,484	714,887	-	9,920	13
Total costs incurred	-	2,558,037	1,462,343	4,020,380	-	127,404	
Programme support fee 8%	-	198,872	115,804	314,676	-	10,192	14
Fixed fee on subcontracts 2%	-	1,443	296	1,739	-	-	
Total costs incurred in CLIN 1	11,405,936	2,758,352	1,578,442	4,336,794	-	137,596	

The annexed notes forms an intergral part of this schedule

AGB

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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>

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4. Salaries

Attendance records, time sheets and contracts were not available in respect of salaries costs of US \$ 2,254. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

5. Overseas allowances

Payment voucher in respect of overseas allowance of US \$ 1,100 was not approved. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1

6. International travel

Travel authorization and detailed trip reports were not available in respect of international travel costs of US \$ 8,629. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

7. Per diem

Travel authorization and detailed trip reports were not available in respect of per diem costs of US \$ 27,935. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

8. 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 \$ 22,552. 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 Audit Report No. 3.

9. Vehicle maintenance

Approved requisition and payee's acknowledgement were not available in respect of items procured during the period at aggregate cost of US \$ 1,235. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1.



**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4**

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

For the period January 1, 2004 to March 31, 2004

10. 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 at aggregate cost of US \$ 21,123. 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 Audit Report No. 3.

11. 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 \$ 28,555. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No.1.

12. Communication

Purchase requisition and Store Receipt and Inspection Reports (RIR) were not available in respect of communication costs of US \$ 4,102. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1.

13. Other direct costs

Purchase requisition and Store Receipt and Inspection Reports (RIR) were not available in respect of other direct costs of US \$ 9,920. Similar issue had been addressed in our report on internal control at MA-4 of our Audit Report No. 1.

14. 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 \$ 10,192 related to the above referred unsupported costs have been classified as unsupported costs.

APF

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4

Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004

Management comments on questioned costs

We agree that certain standard documents for support of reimbursable billings to USAID are missing from the LBG files. Nevertheless, as in the previous audits, we believe there is sufficient documentation to fully support the questioned expenditures and to demonstrate that costs were incurred for allowable and allocable REFS project activities. As in the case of the previous 3 Ferguson audits, the audit period covered was for billings to USAID prior to the implementation of significant internal controls designed in the February/March 2004 timeframe. We believe that these new procedures fully address the internal control and compliance concerns of the auditors and ensure that full supporting documentation is now being completed and maintained. The results of future audit work should confirm our belief.

LBG-Kabul looks forward to the opportunity to present the available documentation to the USAID which should confirm our position that the costs are allowable.

Auditor's 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.

AFF

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 January 1, 2004 to March 31, 2004 and have issued our report on it dated June 25, 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 January 1, 2004 to March 31, 2004, 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.


A.F. FERGUSON & Co. A MEMBER FIRM OF **PRICEWATERHOUSECOOPERS** 

5. No matter was noted by us during the audit for the quarter ended March 31, 2004 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 had been reported in our Audit Report Nos. 1 to 3 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

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

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 14 reportable internal control findings identified in Audit Report Nos. 1 and 2, although final actions to implement the recommendations have not been taken. The Mission is currently evaluating LBGI's actions on the reportable internal control weaknesses identified in Audit Report No. 3.

AF

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 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 to 3 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 January 1, 2004 to March 31, 2004. 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 LBG
- 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
- 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

AFJ

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 16 material internal control findings identified in Audit Report Nos. 1 and 2, although final actions to implement the recommendations have not been taken. The Mission is currently evaluating LBGI's actions on the material internal control weaknesses identified in Audit Report No. 3.

- 8. In addition to the above mentioned material weaknesses we have noted following additional material weaknesses during the course of Audit No. 4.

MA4. Financial Controls

- 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

The above mentioned material weaknesses have been explained in detail in section 4.3 of this report.

- 9. 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.

APR

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

Audit Report No. 4

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

For the period January 1, 2004 to March 31, 2004

10. 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: June 25, 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 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.

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

A phone use policy has been developed by the Administrative Office. This policy defines the procedure for recovery of identified personal use of phones and collection procedure. This policy is still under review since there is no consistency between services provided by the various phone companies. A workable solution is being sought. Finalized policy will be provided when completed.

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

Guest house registers be 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 still needs to be ensured.

AFF

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 should be maintained in the personal file of each employee.

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

RA2-2 Project manager approved his own expenses

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

LBGI has established a policy of approvals to prohibits 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. However we noted certain instances of similar nature in our Audit No.4.

RB Human resource management

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

Separate personnel policies for local Afghan staff members be prepared, approved and implemented, 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 has been formulated, however a copy of such handbook has not been provided to us.

A.F.F.

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>RB-2 Timesheets of local Afghan staff members prepared by the Project Accountant</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>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.</p>
<p>RB2-1 Timesheets, attendance records and leave records not consistent</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>LBGI is in the process of reviewing leave and accounting system and will provide the revised policy and system when these are completed.</p>
RC Inventory Management	
<p>RC-1 Policy for classification of procured items as non-expendable not complied with</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>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.</p>

A.F.

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 be maintained encompassing all information elements listed in criteria defined in the report including code, cost, document references etc.</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 should be maintained separately for expendable and non-expendable inventory.</i></p>	<p>Same as RC-2 above.</p>
<p>RC3-1 Quantity of Chemcrete produced not reconciled with the quantity of Chemcrete consumed for Bitumen produced by sub-contractors</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>No progress was noted by us during the course of our field work for Audit No. 4. Further, no update has been reported by LBGI on the progress related to this recommendation.</p>

AFF²

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 General

RD-1 Policy for related party transactions not formulated

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.

A clause has 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.

RD-2 Lack of physical controls over computer peripherals

Standard documents should be prepared for recording all physical movements relating to computer peripherals.

An inventory movement/transfer form has been introduced to control physical movements. Effective implementation of this form will be checked in next audit.

RD-3 Lack of password controls

Passwords be used for effective control over areas identified and all unauthorized access attempts are checked on a timely basis.

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 atleast once every two months, upon compromise or upon change in IT staffing.

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**

Material Weaknesses

MA Financial Controls

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|---|---|
| <p>MA-1 Lack of segregation of functions related to approval of expenditure and disbursement</p> <p><i>Approval and payment functions should be performed by persons independent of each other.</i></p> | <p>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.</p> |
| <p>MA-2 Cash handling function not independent of the recording function</p> <p><i>Cash handling function be performed by an official independent of the official responsible for recording such transactions.</i></p> | <p>Same as MA-1 above.</p> |
| <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 the chief accountant oversees the distribution of salary payments.</p> |
| <p>MA-4 Supporting documents not available for certain disbursements</p> <p><i>No payment should be approved when supporting documents are not attached to the payment vouchers.</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 in remote areas.</p> |

APZ

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-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>Procurement function has been improved and instances of procurements without obtaining competitive quotations are very few.</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 should be maintained to keep track of subcontractors invoices from the stage of their submission up to their final disbursement.</i></p>	<p>LBGI is now maintaining a logbook to keep track of all of its incoming invoices, including those from their sub-contractors. The logbook also accounts for the dates when these invoices are forwarded/submitted to the Head Office, and/or date of payment.</p>
<p>MA-7 Payment vouchers and related supporting documents not stamped "PAID"</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>Payment vouchers have been stamped "paid" effective February 2004.</p>

ATZ

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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|---|--|
| <p>MA2-3 Expense reports submitted by employees not approved</p> <p><i>All expense reports submitted by the employees of LBGi should be reviewed and approved by the relevant departmental head before processing advance settlement or reimbursement of expenses.</i></p> | <p>The procedure is revised and now expense reports for expatriate staff are reviewed and paid in Kabul. Payments made by field accountants to CCN staff are reviewed and approved by the finance office in Kabul.</p> |
| <p>MA3-1 Expenditure statements prepared at the Kandahar office not properly verified and signed by an authorized official</p> <p><i>All expenditure statements should be verified by the project accountant before acceptance of such expenditure claims and an authorized LBGi official approve such statements.</i></p> | <p>No progress was noted by us during the course of our field work for Audit No. 4. Further, no feedback has been reported by LBGi on the progress related to this recommendation.</p> |
| <p>MA3-2 Requisitions and Store Receipt and Inspection Reports (RIR) not prepared for material procured in Ghazni</p> <p><i>All procurements should be made based on approved requisitions and all items received are entered in the stock register through RIRs.</i></p> | <p>No progress was noted by us during the course of our field work for Audit No. 4. Further, no feedback has been reported by LBGi on the progress related to this recommendation.</p> |

AFJ

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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MB Inventory management

- MB-1 Inventory listing not reconciled with the financial records. Receipt and issue documents not prepared**
- A standard form, Store Receipt and Inspection Report (RIR), for recording of receipt of inventory items have been designed and implemented.
- i) *Standardized documents should be 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 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.*

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
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MB-2 Independent physical verification of expendable and non-expendable inventory items not conducted LBGI has shown their commitment that physical inventory of expendable and non-expendable items procured will take place on a regular basis based on defined procedures.

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.

MB-3 Subsidiary record not maintained for recording movement of expendable inventory items A procedure for recording movement of expendable inventory items in a subsidiary record has been devised but its effective implementation still needs to be ensured.

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

MC General

MC-1 Inadequate segregation of duties in Computer Information Systems (CIS) department Some segregation of duties have been introduced in the CIS department which still need to be properly implemented.

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.



Report on Internal Control

4.3 Material weaknesses

MA. Financial Controls

MA4-1 Approval of appropriate official for modifications in employment contracts at Ghazni Office not obtained

Condition:

Instances were noted where employment contracts of staff members working in Ghazni Office were amended by the office head Ghazni to change the amount of salary without approval of the Administrative Officer, Kabul.

Criteria:

All changes in the employment contracts are required to be approved by the authorized official.

Cause:

Lack of defined process for authorization.

Effect:

Unauthorized modification can be made in the employment contracts.

Recommendation:

All amendments to employment contracts are approved by the Administrative Officer, Kabul or the Project Manager.



Report on Internal Control

4.3 Material weaknesses

MA. Financial Controls

MA4-1 Approval of appropriate official for modifications in employment contracts at Ghazni Office not obtained

Management Comments:

LBG acknowledges that there were instances where field supervisors made employment contract commitments/modifications to employees under their supervision. These actions were subsequently approved and effected in the Kabul Administrative Office. On April 1, 2004 the acting REFS Administrative Officer issued a notice that employment contracts and salary rates could only be effected by the Kabul Administrative Office. We believe this action corrected the deficiency and we know of no subsequent breach of this policy.

Auditor's Comments:

We will review the compliance of our recommendation in Audit No. 5.



Report on Internal Control

4.3 Material weaknesses

MA. Financial Controls

MA4-2 Authority limits for regional offices not defined

Condition:

Specific policy and authorization limits are not formally defined for expenditure incurred at regional offices.

Criteria:

Policy and expense authorization limits for each regional head are defined for expenses incurred at regions.

Cause:

Lack of any specified policy regarding authorization limits for regional heads.

Effect:

Unauthorized expenditures may be made.

Recommendation:

Policy and authorization limits are formalised in writing for expenditure incurred by regional heads and appropriate approval of such policy and limits is obtained.



Report on Internal Control

4.3 Material weaknesses

MA. Financial Controls

MA4-2 Authority limits for regional offices not defined

Management Comments:

At the time of the audit 4 field work LBG-REFS had two operating field offices: Kandahar and Ghazni.

In Kandahar, management, procurement and payment operations are overseen and controlled by an expatriate administrative manager. The admin manager operates with a cash advance from the Kabul office and who is experienced in standard procurement practices. Additionally, he has been trained in REFS-project documentation preparation and control and must submit all documentation to the Kabul financial office for review and approval by the Project Controller prior to replenishment of his advance. It should be noted that only small purchases are completed at the Kandahar location for supplies and services. All large purchases (over \$2,500) are authorized by the Kabul staff.

In Ghazni no procurement actions are effected without the direction of the Kabul-Kandahar Program Manager or his deputy. Again, local procurements are limited to small purchases or with Kabul approval for purchases exceeding \$2500. The financial activities are managed by a Afghan employee with considerable experience and training in REFS-project documentation preparation and control. Again, he must submit all documentation to the Kabul financial office for review and approval by the Project Controller prior to replenishment of his advance.

However, LBG management does not argue the logic of defining roles for financial management for regional offices. We will therefore amend the existing "Delegation of Authority for Award/Signing of Contractual Instruments" to include procurement authorities for regional offices.

Auditor's Comments

We will review the compliance of our recommendation in Audit No. 5.



**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 January 1, 2004 to March 31, 2004, and have issued our report on that audit dated June 25, 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. We were unable to review compliance with certain clauses of the contract as listed in section 5.2 of this report due to non-availability of related information and documents. The results of our compliance tests disclosed that adequate supporting documentation required under Federal Acquisition Regulation 52.215-2, in respect of costs aggregating US\$ 137,596 was not available, the effects of which are shown as unsupported costs in the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the period January 1, 2004 to March 31, 2004.

APZ

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 4
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2004 to March 31, 2004**

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 January 1, 2004 to March 31, 2004 (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 June 25, 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 meetings held on April 24, 2004. Based on our discussion referred to above, LBGI is required to provide details to substantiate compliance with the clauses listed in section 5.2 of this report. LBGI is also required to provide sub-contracts and other related documentation such as progress reports, supervision reports, invoices, etc related to sub-contracts selected by us on sample basis to review the level of compliance in awarding and execution of sub-contracts. A list of such sub-contracts is presented in section 5.3 of this report. We have not received related details to substantiate the compliance with the clauses listed in section 5.2 and sub-contracts listed in section 5.3, consequently, compliance with the related contract clauses and sub-contracts cannot be ensured. As part of our audit fieldwork for Audit No. 5, we will review related documentation if provided to us 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 5.2 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: June 25, 2004
Islamabad, Pakistan

5.2 Contract clauses for which related compliance could not be checked 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>

AFJ

5.2 Contract clauses for which related compliance could not be checked 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?

APK

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5.3 Sub-contracts for which related documents not provided

S. No.	Name of contractor	Contract No.	Description	Amount US \$
1	Gulsan + Cukurova Joint Venture	03-02-GG451-RD-0005 (Includes 7 modifications)	Kabul-Kandahar Road, Section F, Km 347-432	49,682,476
2.	BSC-C&C Joint Venture	03-02-GG451-RD-0007 (Includes 3 modifications)	Kabul-Kandahar Road, Section E, Km 262-347	39,933,596
3.	Mosaic Mapping Systems, Inc.	03-02-GG451-RD (Includes 2 modifications)	Acquisition and processing of LIDAR data and digital video for approximately 566 kilometers of highway along the Kandahar to Herat road	432,000
4.	Afghan Asia Construction Co. (ACL)	02-03-GG451-CL-0001 (Includes 2 modifications)	Construction of 10 Basic and 6 Comprehensive Clinics in Badakhshan province	1,296,826
5.	Development Organization for the Revival of Afghanistan (DORA)	02-03-GG451-CL-0004	Construction of 6 Comprehensive Clinics in Helmand province	843,248
6.	Rahmat Fazal Construction Company (RFC)	02-03-GG451-CL-0007 (Includes 1 modification)	Construction of 1 Basic Clinic in Kabul	129,776
7.	Partners in Revitalization and Building (PRB)	02-03-GG451-SC-0004 (Includes 4 modifications)	Construct 3-8 Classroom Schools in Maimana, Faryab, 4-8 Classroom Schools in Belchiragh, Faryab, 1 – 10 Classroom School in Maimana, Faryab and 1 – 12 Classroom School in Belchiragh, Faryab	1,737,299

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5.3 Sub-contracts for which related documents not provided

S. No.	Name of contractor	Contract No.	Description	Amount US \$
8.	Shelter for Life (SFL)	02-03-GG451-SP-002 (Includes 1 modification)	Schools and Clinics Construction Supervision – 29-Basic Clinics, 13- Comprehensive Clinics, 31- Schools in various provinces	1,967,046
9.	Partners for Social Development, (PSD)	01-03-GG451-SH-0018 (Includes 1 modifications)	Assessment of school sites in Kundoz, Wardak, and Kapisa provinces	21,436
10.	Cukurova Construction Co.	03-01-GG451-0001	For the Sar-e-Haus-Perform a topographic survey, Survey line and grade of proposed diversion and provide design of diversion channel	26,205
11.	Acres International Corporation	03-02-GG451-EL-01 (Includes 2 modifications)	Condition assessment of Kajaki Hydroelectric Generating Station	1,410,525
12.	DEL Private Limited	02-03-GG451-BD-0001	Construction of Tarin & Aghelak Bridges	2,054,511

Management Comments:

All sub-contracts are available with the contracting office and we will welcome the review of auditors during the course of their audit.

Auditor's Comments

We will review sub-contracts made available to us in Audit No. 5.

APJ