



USAID
FROM THE AMERICAN PEOPLE

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, 2005 TO MARCH 31, 2005, INCLUDING CONTRACT LINE ITEM NO. 2 COSTS FOR THE PERIOD FROM APRIL 1, 2004 TO JUNE 30, 2004

AUDIT REPORT NO. 5-306-05-008-N
June 30, 2005

MANILA, PHILIPPINES



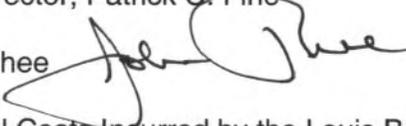
USAID
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Office of Inspector General

June 30, 2005

MEMORANDUM

TO: USAID/Afghanistan Director, Patrick C. Fine

FROM: RIG/Manila, John M. Phee 

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, 2005 to March 31, 2005, including Contract Line Item No. 2 costs for the period from April 1, 2004 to June 30, 2004; Audit Report No. 5-306-05-008-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, 2005 to March 31, 2005, including Contract Line Item No. (CLIN) 2 costs for the period from April 1, 2004 to June 30, 2004.¹ 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.² 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

¹ The auditors included these CLIN2 costs only in this period's audit because these costs were omitted inadvertently from the audit for the period from April 1, 2004 to June 30, 2004.

² 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.

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.

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

A.F. Ferguson & Co. audited \$1,606,343, of REFS program costs paid locally in Afghanistan by LBGI. The auditors identified no questioned costs in the Schedule of Local Costs billed to USAID.

Concerning LBGI's internal control structure, the auditors identified three material internal control weakness related to (1) inconsistencies in the local staffs' personnel information maintained by the Personnel Department versus those recorded by the Finance Department; (2) not numbering payment vouchers at LBGI's Herat office; and (3) not consistently applying the inventory management procedures at all LBGI's offices. The auditors did not identify any material instances of noncompliance.

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.

Regarding prior audit recommendations from the first to sixth concurrent financial audit reports, the auditors reported that USAID/Afghanistan sustained \$71,527 of the \$413,369 in unsupported questioned costs. The auditors also reported that USAID/Afghanistan determined that LBGI has taken or is taking appropriate actions to correct the 37 internal control findings and the 13 material noncompliance findings identified in the reports, although final actions have not yet been taken on some of the recommendations. For the seventh concurrent financial audit, the auditors reported that USAID/Afghanistan is currently evaluating LBGI's actions relating to the internal control weakness identified in the report. However, subsequent to the issuance of the audit report, USAID/Afghanistan reported that based on its review of LBGI's inventory verification report, LBGI has taken appropriate actions to correct the one internal control finding identified in the report.

Based on our review of the eighth concurrent financial audit report, we are making the following recommendation for inclusion in the USAID's Consolidated Audit Tracking System (CATS). This recommendation will require a management decision by USAID/Afghanistan.

Recommendation No. 1: We recommend that USAID/Afghanistan ensure that the Louis Berger Group, Inc. corrects the three material internal control weaknesses identified on page 8 and further detailed on pages 32 thru 34 of the report.

Please advise us within 30 days of the actions planned or taken to implement the recommendation. 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 January 1, 2005 to March 31, 2005 including CLIN 2 costs
disbursed during the period April 1, 2004 to June 30, 2004**

Audit Report No. 8

A.F. FERGUSON & Co.

a member firm of

PRICEWATERHOUSECOOPERS 

June, 2005

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 2004**

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

Audit Report No. 8

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

For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during the period April 1, 2004 to June 30, 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.

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

Audit Report No. 8

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

For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during the period April 1, 2004 to June 30, 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.

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

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

For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during the period April 1, 2004 to June 30, 2004

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

1.8 According to latest progress report 29 job orders have been issued by USAID to LBGI. Further following are the major activities in which LBGI remained involved till February 28, 2005:

Highways	i) Kabul-Kandahar	
	ii) Kandahar-Herat (rehabilitation)	
Secondary Roads	i) Shibergan to Sare-Pul	
	ii) Kabul - Gardez	
	iii) UNOPS Programme	
Urban Roads	i) Shash Darak	
	ii) Great Massoud/BiBi Mahro Airport Road	
Power	i) Kandahar Emergency Generating Plant	
	ii) Lashkar Gah & Qalat Emergency Generating Plant	
	iii) Kandahar Soviet Diesel Generating Plant	
	iv) Kajakai Hydroelectric Power Plant Turbine Refurbishment and New Turbine (units 1, 2 and 3)	
	v) Kajakai Dam Safety Assessment	
	vi) Kajakai Irrigation Diversion Valves	
	vii) Darunta Hydroelectric Plant	
Irrigation	i) Mohammad Agha and Moghul Khil Intakes	
	ii) Sardeh Irrigation System	
	iii) Zana Khan Dam	
	iv) Sar-e-Haus dam	
	v) Sar-e-Haus Spillway and Diversion Channel	
	vi) Shah Rawan Intake	
	vii) Benchmark Survey	
School	i) Kabul	1
	ii) Ghazni	10
	iii) Faryab	9
	iv) Helmand	4
	v) Uruzgan	9

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

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

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

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 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. 8
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the period April 1, 2004 to June 30, 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 (local) billed to USAID under Contract Line Item No. 1 by LBGI related to REFS Programme during the quarter ended March 31, 2005 were US\$ 1,502,309. Further, during the quarter ended June 30, 2004, costs aggregating US \$ 104,034 were billed to USAID under Contract Line Item No. 2, which costs were not reported as local costs but are now included as local costs billed to USAID.
- ii) In the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the quarter we have not identified any material ineligible or unsupported costs out of total costs billed for the said quarter for Contract Line Item No. 1 and under Contract Line Item No. 2 during the quarter ended June 30, 2004.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
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For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 2004**

- iii) In addition to internal control weaknesses reported in our Audit Report Nos. 1 to 7 we have noted and reported following material weaknesses for the current quarter:

MA. Financial Controls

- MA8-1 Differences in the information related to local personnel as per records of Personnel Department and records maintained by the Finance Department
MA8-2 Payment vouchers in Herat office not numbered

MB. Inventory Management

- MB8-1 Inventory management procedures not consistently applied at all locations
- iv) The results of our compliance tests for the quarter did not disclose any material noncompliance.
- v) The management of LBGI has generally accepted the audit findings of our Audit Report No. 8 and has shown their intention to continue with the implementation of proposed recommendations.
- vi) For Audit Report Nos. 1 through 6, the USAID's Mission sustained US\$ 71,527 of the US\$ 413,369 in unsupported questioned costs. Also, the Mission determined that LBGI has so far, taken and is taking appropriate actions to correct the 37 internal control findings and the 13 non-compliance findings identified in the reports, although final actions have not yet been taken on some of the recommendations. For Audit Report No. 7, the Mission is currently evaluating LBGI's actions relating to the internal control weakness identified in the report.

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

Audit Report No. 8

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

For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during the period April 1, 2004 to June 30, 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, 2005 to March 31, 2005. The Schedule has been prepared based on costs included by LBGI in its invoices submitted to USAID.
2. We conducted our audit of the Schedule in accordance with scope of work defined in our contract 306-C-00-03-00013-00 with USAID and in accordance with U.S Government Auditing Standards issued by the Controller General of the United States with the exception that we are not required to express an opinion on the Schedule referred in paragraph 1 above; and our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization. An audit includes examining, on a test basis, evidence supporting the amounts included in the Schedule and invoiced to USAID. An audit also includes assessing the accounting principles used and significant estimates made by the management in accumulating costs.
3. Our audit was conducted on test basis. The results of our tests disclosed no material cost, which could be classified as ineligible or unsupported cost in the Schedule of local costs billed to USAID under Contract Line Item No. 1 during the quarter ended March 31, 2005 and under Contract Line Item No. 2 during the quarter ended June 30, 2004.
4. This report has been discussed with the management of LBGI in Kabul and with the controller of LBGI in Washington.

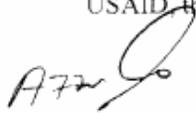
Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan

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

For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during the period April 1, 2004 to June 30, 2004

5. In accordance with the U.S. Government Auditing Standards, we have also issued our reports dated June 17, 2005 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 17, 2005
Islamabad, Pakistan

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
 Audit Report No. 8
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
 For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
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**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 1, 2005 to March 31, 2005**

Budget	Actual Costs			Questioned Cost		Note
	Prior period September 30, 2002 to December 31, 2004	Current period January 1, 2005 to March 31, 2005	Cummulative upto March 31, 2005	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)	1,147,728	272,180	1,419,908	-	-
Short term technical - Expatriate	-	-	-	-	-
Short term technical - Cooperating Country Nationals (CCN)	10,675	-	10,675	-	-
Local personnel	1,192,007	261,848	1,453,855	-	-
Post differential	1,474	-	1,474	-	-
Danger pay	529	-	529	-	-
Sub-total	2,352,413	534,029	2,886,442	-	-

Overseas allowances

Separate maintenance allowances	511,677	118,084	629,761	-	-
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Transportation

International travel	217,497	28,283	245,780	-	-
Per diem	685,395	134,765	820,160	-	-
Local travel	777,844	191,001	968,845	-	-
Vehicle maintenance	146,520	31,618	178,138	-	-
Miscellaneous travel expenses	25,184	8,370	33,554	-	-
Total	1,852,440	394,037	2,246,477	-	-

Non-expendable inventory

Equipment	292,754	4,921	297,675	-	-
Machinery	103,790	3,000	106,790	-	-
Vehicles	203,000	-	203,000	-	-
Furniture and fixtures	34,693	-	34,693	-	-
Household improvements	120,799	-	120,799	-	-
Total	755,036	7,921	762,957	-	-
Sub total carried forward	5,471,566	1,054,070	6,525,636	-	-

The annexed notes form an integral part of this schedule

A.F.M.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
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 For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
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**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 1, 2005 to March 31, 2005**

Budget	Actual Costs			Questioned Cost		Note
	Prior period September 30, 2002 to December 31, 2004	Current period January 1, 2005 to March 31, 2005	Cumulative upto March 31, 2005	Ineligible costs for current period	Unsupported costs for current period	
US\$						
Sub total brought forward	5,471,566	1,054,070	6,525,636	-	-	
Office maintenance						
Housekeeping services	232,936	61,591	294,527	-	-	
Office supplies	302,058	41,307	343,365	-	-	
House hold effects	265,012	33,061	298,073	-	-	
Others	762,731	86,260	848,991	-	-	
Total	1,562,737	222,220	1,784,957	-	-	
Communication						
Phones	167,045	7,584	174,629	-	-	
Internet	164,154	2,601	166,755	-	-	
Courier	54,842	16,917	71,759	-	-	
Misc	177	-	177	-	-	
Total	386,218	27,103	413,321	-	-	
Technical contracts						
Management	-	-	-	-	-	
Roads	24,632	-	24,632	-	-	
Schools	52,197	-	52,197	-	-	
Medical	9,746	-	9,746	-	-	
Waste Water	7,326	-	7,326	-	-	
Infrastructure	11,500	-	11,500	-	-	
Dams & Irrigation	-	963	963	-	-	
Agriculture	1,858	-	1,858	-	-	
Total	107,259	963	108,222	-	-	
Other direct costs						
Office rent	957,494	9,660	967,154	-	-	
Bank charges	969	341	1,310	-	-	
Other labor costs	99,156	32,236	131,392	-	-	
Publications	23,193	618	23,811	-	-	
Others	140,123	43,870	183,993	-	-	
Total	1,220,935	86,724	1,307,659	-	-	
Total costs incurred	8,748,715	1,391,080	10,139,795	-	-	
Programme support fee 8%	693,316	111,209	802,526	-	-	
Fixed fee on subcontracts 2%	2,145	19	2,164	-	-	
Total costs incurred in CLIN 1	111,460,743	9,442,177	1,502,309	10,944,486		

The annexed notes form an integral part of this schedule

AFW

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
 Audit Report No. 8
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 For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
 the period April 1, 2004 to June 30, 2004**

**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 April 1, 2004 to June 30, 2004
 (under Contract Line Item No. 2)**

Budget	Actual Costs			Questioned Cost		Note
	Prior period April 1, 2004 to June 30, 2004	Current period April 1, 2004 to June 30, 2004	Cummulative upto June 30, 2004	Ineligible costs for current period	Unsupported costs for current period	
US\$						

Contract Line Item No. 02

Other direct costs

Schools		-	76,542	76,542		
Basic Health Clinics		-	27,492	27,492		
		-	104,034	104,034		
Total costs incurred		-	104,034	104,034	-	-
Programme support fee 8%						
Fixed fee on subcontracts 2%						
Total costs incurred in CLIN 2	553,539,257	-	104,034	104,034	-	-

The annexed notes form an integral part of this schedule

ATM

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
 Audit Report No. 8
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
 For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
 the period April 1, 2004 to June 30, 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. The Schedule of Contract Line Item No.1 for the period January 1, 2005 to March 31, 2005 is based on invoice Nos. 105, 107, 109, 111, 113 and 115.

3. Budgetary allocations for the REFS contract

The budget allocation of US \$ 665 million is based on modification number 18 of the LBGI's contract with USAID. The budget allocation has been divided into following contract line items and has not been classified into detailed cost elements:

	US \$ Million
Contract Line Item Number 1	111,460,743
Contract Line Item Number 2	553,539,257
	665,000,000

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 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, 2005 to March 31, 2005 for Contract Line Item No. 1 and for the period April 1, 2004 to June 30, 2004 for Contract Line Item No. 2, and have issued our report on that audit dated June 17, 2005.
2. We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Controller General of the United States with the exception that our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.
3. The management of LBGI is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8**

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

**For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 2004**

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 LBG I for the period January 1, 2005 to March 31, 2005, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.
5. No matter was noted by us during the audit for the quarter ended March 31, 2005 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). However, following reportable conditions had been reported in our Audit Report Nos. 1 to 7 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

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 2004**

RD General

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

An update of progress made by LBGI on our recommendations has been given in section 4.2 of this report. On the other hand, the USAID's Mission has determined that LBGI has taken or is taking appropriate actions to correct the 15 reportable internal control findings identified in Audit Report Nos. 1 to 5, although final actions to implement the recommendations have not been taken on some of the recommendations.

6. A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the Schedule may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
7. Our consideration of internal control would not necessarily disclose all matters on the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted and reported following matters involving the internal control structure and its operations in our Audit Report Nos. 1 to 7 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, 2005 to March 31, 2005. However, because of the nature of the following material weaknesses, we were unable to satisfy ourselves that the Schedule is free of material misstatement caused by irregularities, if any.

MA. Financial Controls

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

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 2004**

- MA2-1 Policy for recording costs incurred in currencies other than US \$ in Field Cash Report (FCR) not formulated
- MA2-2 Proper record for casual labor not maintained
- MA2-3 Expense reports submitted by employees not approved
- MA3-1 Expenditure statements prepared at Kandahar office are not properly verified and signed by an authorized official
- MA3-2 Requisitions and Store Receipt and Inspection Report (RIR) not prepared for material procured in Ghazni
- MA4-1 Approval of appropriate official for modifications in employment contracts at Ghazni Office not obtained
- MA4-2 Authority limits for regional offices not defined
- MA5-1 Disbursement prior to approval of payment voucher
- MA6-1 List not maintained of authorized rent a car dealers, with approved car rent rates

MB. Inventory Management

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

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 or is taking appropriate actions to correct the 22 material internal control findings identified in Audit Report Nos. 1 to 6, although final actions to implement the recommendations have not been taken on some of the recommendations.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
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the period April 1, 2004 to June 30, 2004**

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

MA. Financial Controls

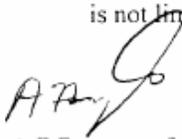
- MA8-1 Differences in the information related to local personnel as per records of Personnel Department and records maintained by the Finance Department
MA8-2 Payment vouchers in Herat office not numbered

MB. Inventory Management

- MB8-1 Inventory management procedures not consistently applied at all locations

The above-mentioned reportable conditions 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.
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 17, 2005
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 LBG I management
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Reportable conditions

RA Financial Controls

- | | | |
|--------------------|---|--|
| <p>RA-1</p> | <p>Financial transactions not classified at adequate detailed level</p> <p><i>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.</i></p> | <p>Implementation in progress: The Computer System used for accounting in the REFS-Kabul office (REFS Database) has expanded fields to identify the cost category for each expenditure made in Afghanistan but such expended field still does not include some of the head of accounts disclosed in the Schedule of local costs billed to USAID.</p> |
| <p>RA-2</p> | <p>Lack of control over personal use of communication facilities</p> <p><i>The mobile telephone company be required to provide activity details on monthly basis so that personal use of communication facilities would be properly segregated.</i></p> | <p>Implemented: A phone use policy has already been developed, effective from April 2004 by the Administrative Office. This policy defines the procedure for recovery of identified personal use of phones and collection procedure. By virtue of this policy, the mobile phone and Thuraya phone bills are subject to review by the users who would advise personal calls to the finance office within 15 days of the submission. The amount identified as personal calls is deducted from the salary. Further, the mobile phone companies have started raising invoicing/ billing providing details of all the outgoing and incoming calls.</p> |
| <p>RA-3</p> | <p>Use of guest houses for non-programme related activities not identified</p> <p><i>Guest house registers be maintained in which particulars of occupant are recorded on timely basis and it is monitored by an authorized representative of LBG I.</i></p> | <p>Implemented: Guest House registers have already been introduced by Administration Officer of LBG I in Afghanistan and daily attendance record of each guest is being maintained.</p> |

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
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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.

Implemented: Declaration from each expatriate staff members relating to their number of dependents has already been obtained. The declarations are now updated at regular intervals.

RA2-2 Project manager approved his own expenses

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

Implemented: LBGI has established a policy of approvals to prohibit this from occurring again. The Deputy Chief of Party approves the vouchers of the Project Manager or in the absence of the Deputy Chief of Party; the Administrative Officer approves the expenses of the Project Manager. A final review and approval is made by the Project Controller to ensure that all documentation is in order.

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.

Implementation in progress: A local employee policy handbook has been developed by the administration office however; the said handbook is not yet approved by the LBGI's management.

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>Implemented: A new policy has been implemented by LBGI's management in Kabul whereby all the local staff members submit their monthly time sheets, which are duly approved by the respective section heads, prior to disbursement of monthly salary. No salaries are disbursed without submission of approved time sheets.</p>
<p>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>Implemented: A new system for maintenance of leave records and time sheets has been developed and implemented, effective from August 2004. Actual attendance records have been dispensed with. This system has assisted the management in removing discrepancies amongst timesheets and leave records.</p>
<p>RC Inventory Management</p>	
<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>Implemented: A list of all items having unit cost of US \$ 500 or more and having useful life in excess of two years has already been compiled and implemented, effective from August 2004 in accordance with the requirements of USAIDAR 752.245.70.</p>

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>Implementation in progress: A list of all items having a unit cost value of US\$ 500 or more and having useful life in excess of two years has already been compiled and implemented, effective from August 2004 in accordance with the requirements of USAIDAR 752.245.70. The contents of this listing now include reference to related payment documents and item codes. Consequently, now it is possible to trace items listed in the non-expendable inventory listing to the payment documents in the financial records and to the items on floor. However, such listing is not reconciled with the total cost incurred on non-expendable items.</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>Implemented: Segregation of expendable and non-expendable items is appearing on the vouchers and there is a separate list for expendable inventory items.</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>Not implemented: No progress was noted by us during the course of our field work for Audit No. 8. Further, no update has been reported by LBGi on the progress related to this recommendation.</p>

Report on Internal Control

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

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

Report on Internal Control

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

Our Observations and recommendations	Progress By LBGI management
Material Weaknesses	
MA Financial Controls	
<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>Implemented: LBGI's management planned to create a position of cashier at Kabul office; however this proposition was not implemented. There is a partial segregation of function related to approval and disbursement of expenditure, as the head of accounts section is responsible for making disbursements, who is a senior and key member of accounts / finance section of LBGI.</p>
<p>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>Implemented: The process was modified. Now the employee and supervisor fill out and certify the timesheets. The project accountant prepares the detailed payroll. All the payments including payrolls are approved by Deputy Chief of Party.</p>
<p>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>Implemented: LBGI has tightened the process to receive complete supporting documents from the fields, but there still remains the difficulty of obtaining complete documentation for expenditures in remote areas.</p>

Report on Internal Control

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

Our Observations and recommendations	Progress By LBGi management
<p>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>Implemented: As per policy, any procurement above US\$ 2,500 requires that at least 3 quotations should be obtained. Except for procurement instances where it is not practical to obtain 3 quotations; the policy is strictly complied.</p>
<p>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 subcontractor's invoices from the stage of their submission up to their final disbursement.</i></p>	<p>Implemented: A log is maintained by finance secretary to keep record of all invoices received.</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>Implemented: Payment vouchers have been stamped "paid" effective February 2004.</p>

Report on Internal Control

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

Our Observations and Recommendations	Progress by LBGI management
<p>MA-8 Detailed budget for REFS Programme not available</p> <p><i>A detailed programme budget should be prepared, approved by USAID, and used for budgetary controls for the programme.</i></p>	<p>Implemented: Modification 18 to the contract has been signed by USAID and by virtue of this, the budget for REFS has been formally approved.</p>
<p>MA-9 Computer application susceptible to post processing modifications</p> <p><i>The data validation controls should be incorporated in the accounting application to ensure control over post processing modifications.</i></p>	<p>Implemented: The computer program has been modified to prohibit changes in recorded data, through user identification and password protections.</p>
<p>MA2-1 Policy for recording costs incurred in currencies other than US \$ in Field Cash Report (FCR) not formulated</p> <p><i>A currency conversion policy should be formulated, documented, approved and consistently implemented for recording of financial transactions in the FCR.</i></p>	<p>Not implemented: No progress was noted by us during the course of our field work for Audit No. 8. We were informed that most of the expenses are incurred in US \$. For expenses incurred in currencies other than US \$, quotations are obtained from the local money changers and currency conversion takes place at prevailing rates.</p>
<p>MA2-2 Proper record for casual labor not maintained</p> <p><i>Various levels/categories of casual labour are defined and for each level/category hourly/daily rate or a range of rates is determined and approved. Further, a standard Casual Labour usage Claim Form specifying the activities performed, is developed, approved and implemented.</i></p>	<p>Implemented: Policy has already been formulated effective from June 2004. Such policy mentions pre-approved rate for skilled and un skilled casual labor. Further, for casual labor, there is a separate labor usage form specifying the activities performed by the labor force.</p>

Report on Internal Control

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

Our Observations and Recommendations	Progress by LBG I management
<p>MA2-3 Expense reports submitted by employees not approved</p> <p><i>All expense reports submitted by the employees of LBG I should be reviewed and approved by the relevant departmental head before processing advance settlement or reimbursement of expenses.</i></p>	<p>Implemented: The procedure has been revised and now expense reports for expatriate staff are reviewed and paid in Kabul. Payments made by field accountants to CCN (local) staff are reviewed and approved by the finance office in Kabul.</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 LBG I official approve such statements.</i></p>	<p>Implemented: Payment procedure has been improved. Expenditures statements prepared at the Kandahar office are now verified by Kandahar Admin Officer and approved by Deputy Chief of Party in Kabul.</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>Implemented: System has been improved and no such instances were found where requisition and RIRs for items procured at Ghazni office were not prepared.</p>

Report on Internal Control

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

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

Report on Internal Control

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

Our Observations and recommendations	Progress By LBGI management
MB Inventory management	
<p>MB-1 Inventory listing not reconciled with the financial records. Receipt and issue documents not prepared</p> <p><i>i) Standardized documents should be introduced for all inventory movements, namely:</i></p> <ul style="list-style-type: none"> <i>a) Good Receiving Note for receipts</i> <i>b) Inventory Requisition Form for issues</i> <i>c) Inventory Transfer Form for transfers</i> <p><i>ii) The physical inventory balances should be reconciled with financial records at regular intervals and such reconciliation is documented, reviewed and approved by a representative of the management of LBGI.</i></p>	<p>Implemented: A standard form, Store Receipt and Inspection Report (RIR), for recording of receipt of inventory items has been designed and implemented. We were informed that physical inventory balances are reconciled with the financial record because they are based on information provided by the Finance Department. On a test-basis, we selected a few items and matched the two records and found them to be accurate. However there is no specific frequency of preparation of such reconciliation. The last reconciliation was done in November, 2004.</p>
<p>MB-2 Independent physical verification of expendable and non-expendable inventory items not conducted</p> <p><i>Physical verification of inventory items should be carried out by officials independent of staff involved in inventory management function, and all findings are properly documented and timely followed up.</i></p>	<p>Implemented: Physical verification carried out for all items.</p>

Report on Internal Control

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

Our Observations and recommendations	Progress By LBG I management
MB Inventory management	
<p>MB-3 Subsidiary record not maintained for recording movement of expendable inventory items</p> <p><i>A subsidiary record for the movement of inventory items should be maintained and it is reviewed and checked by an appropriate official periodically.</i></p>	<p>Implemented: A procedure for recording movement of expendable inventory items in a subsidiary record has been devised and is being implemented.</p>
<p>MB7-1 The non-expendable inventory items of REFS currently in USPI's possession have not been physically verified</p> <p><i>Periodic physical verification of inventory items in possession of USPI is carried out by officials independent of staff involved in inventory management function, and all findings are properly documented and timely followed up.</i></p>	<p>Implementation in progress: Physical verification of items of REFS currently in USPI's possession has been physically verified but related physical verification report has not been compiled till the finalization of this report.</p>
MC General	
<p>MC-1 Inadequate segregation of duties in Computer Information Systems (CIS) department</p> <p><i>CIS functions should be segregated among staff members assigned for CIS function and passwords are assigned by only a senior staff member of the management of LBG I in Kabul. Such passwords should be frequently changed.</i></p>	<p>Implemented: Segregation of duties has been introduced in the CIS department to the extent possible.</p>

Report on Internal Control

4.3 Material Weaknesses

MA. Financial Controls

MA8-1 Differences in information related to local personnel as per records of Personnel Department and records maintained by the Finance Department

Condition:

Information related to name and monthly salaries of local personnel of LBGI as maintained by the Personnel Department does not match with the records maintained by the Finance Department.

Criteria:

Personnel records should be updated by the Personnel Department and reconciled with personnel files as well as with the Finance Department on a timely basis.

Cause:

Delay in updation of personnel records by Personnel Department in relation to staff personnel files.

Effect:

Inadequate controls over records of local staff by the Personnel Department.

Recommendation:

Personnel information of local staff is updated regularly in relation to personnel files and is agreed with salary records of the Finance Department on a timely basis.

Management Comments:

The management of LBGI has also noted differences between the two sources and will investigate the reasons.

Report on Internal Control

4.3 Material Weaknesses

MA. Financial Controls

MA8-2 Payment vouchers in Herat office not numbered

Condition:

Payments were made at Herat office on payment vouchers which were not numbered for ready reference and effective audit trail.

Criteria:

Each payment voucher should be sequentially numbered for identification and ready reference purposes.

Cause:

Lack of guidance to the Cashier in Herat office.

Effect:

Misplaced vouchers, if any, may remain undetected.

Recommendation:

All payment vouchers are numbered and referred to the cashbook by their numbers.

Management Comments:

We agree that this step would be an effective way of keeping track of the payment vouchers in regions and we will implement this recommendation.

Report on Internal Control

4.3 Material Weaknesses

MB. Inventory Management

MB8-1 Inventory management procedures not consistently applied at all locations

Condition:

Inventory coding structure and code allocation methodology not applied at all locations on a consistent basis.

Criteria:

Inventory management should be consistently applied at all locations of the REFS programme.

Cause:

Lack of coordination between Herat and Kabul office.

Effect:

- Lack of control over inventory items located in Herat.
- Reconciliation of inventory items with related costs incurred will remain difficult.

Recommendation:

Inventory management system is consistently enforced at all locations of the REFS programme.

Management Comments:

We will look into this matter by coordinating with the logistic department at all locations.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 8
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during
the period April 1, 2004 to June 30, 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, 2005 to March 31, 2005 for Contract Line Item No. 1 and for the period April 1, 2004 to June 30, 2004 for Contract Line Item No. 2, and have issued our report on that audit dated June 17, 2005.
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 tests disclosed no instances of noncompliance that are required to be reported here under U.S. Government Auditing Standards during the quarter ended March 31, 2005.

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

Audit Report No. 8

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

For the period January 1, 2005 to March 31, 2005 including CLIN 2 costs disbursed during the period April 1, 2004 to June 30, 2004

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



A.F.Ferguson & Co.
Chartered Accountants

Date: June 17, 2005
Islamabad, Pakistan