



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, 2006 TO MARCH 31, 2006

AUDIT REPORT NO. 5-306-06-005-N
June 28, 2006

MANILA, PHILIPPINES

Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

June 28, 2006

MEMORANDUM

TO: USAID/Afghanistan Director, Alonzo Fulgham

FROM: RIG/Manila, Catherine M. Trujillo *Catherine Trujillo*

SUBJECT: Financial Audit of Local Costs Incurred by the Louis Berger Group, Inc. to Implement the Rehabilitation of Economic Facilities and Services Program, USAID/Afghanistan Contract No. 306-C-00-02-00500-00, for the Period from January 1, 2006, to March 31, 2006; Audit Report No. 5-306-06-005-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, 2006, to March 31, 2006. The audit was conducted by A.F. Ferguson & Co., which is located in Islamabad, Pakistan and is a member firm of PricewaterhouseCoopers.

The USAID Regional Inspector General in Manila reviewed the report and found that the audit generally met the requirements of the U.S. Government Auditing Standards. The audit firm disclosed the scope limitations that it had a limited continuing professional education program and did not have an external quality control review conducted by an unaffiliated audit organization.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.

This was the twelfth 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.

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

A.F. Ferguson & Co. audited \$3,097,361 of REFS program costs paid locally in Afghanistan by LBGI. The audit firm did not identify any questioned costs, reportable or material internal control weaknesses, or material instances of noncompliance.

Regarding prior audit recommendations from the first to eleventh concurrent financial audit reports, the audit firm reported that USAID/Afghanistan sustained \$71,527 of the \$413,369 in unsupported questioned costs. The audit firm also reported that USAID/Afghanistan determined that LBGI has taken appropriate actions to correct the 45 internal control findings and the 13 material noncompliance findings identified in the reports.

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

Attachment: a/s

U.S. Agency for International Development – USAID

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

For the period January 1, 2006 to March 31, 2006

Audit Report No. 12

A.F. FERGUSON & Co.

a member firm of

PRICEWATERHOUSECOOPERS 

May, 2006

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

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**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

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. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

- 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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- 1.7 LBGI is currently involved in various sectors of the REFS programme for Afghanistan including construction of roads, construction and rehabilitation of schools, clinics, irrigation and electricity distribution facilities and related demining services in different provinces of Afghanistan.
- 1.8 According to latest progress report 30 job orders have been issued by USAID to LBGI. Further following are the major activities in which LBGI remained involved till March 31, 2006:

Highways	i) Kabul-Kandahar ii) Kandahar-Herat (rehabilitation) iii) Kabul-Gardez
Secondary Roads	i) Lashkar Gah to Ring Road ii) Farah to Ring Road iii) Ghazni to Sharan iv) Pull-e-Alam v) Jalalabad to Asmar vi) Panjsher vii) Tirin kot viii) Shiberghan
Urban Roads	i) Shash Darak ii) Great Massoud/BiBi Mahro Airport Road
Power	i) Kandahar Emergency Generating Plant ii) Lashkar Gah & Qalat Emergency Generating Plant iii) Kandahar Soviet Diesel Generating Plant iv) Kajakai Hydroelectric Power Plant Turbine Refurbishment and New Turbine (units 1, 2 and 3) v) Kajakai Dam Safety Assessment vi) Kajakai Irrigation Diversion Valves vii) Darunta Hydroelectric Plant
Irrigation	i) Mohammad Agha and Moghul Khil Intakes ii) Sardeh Irrigation System iii) Zana Khan Dam iv) Sar-e-Haus dam v) Sar-e-Haus Spillway and Diversion Channel vi) Shah Rawan Intake vii) Benchmark Survey

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School	i)	Kabul	1
	ii)	Ghazni	10
	iii)	Faryab	9
	iv)	Helmand	4
	v)	Uruzgan	9
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	

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For the period January 1, 2006 to March 31, 2006**

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
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For the period January 1, 2006 to March 31, 2006**

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 for the quarter ended March 31, 2006 were US\$ 3,097,361. Further, during the quarter ended March 31, 2006 no costs were billed to USAID under Contract Line Item No. 2, which could be considered as local cost for the purpose of this audit.
- ii) In the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00 for the above-referred period, 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.

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- iii) No reportable condition or material weakness was noted by us during the course of our audit for the quarter.
- iv) The results of our compliance tests for the quarter did not disclose any material non-compliance.
- v) We, however, wish to add that related to audit of previous periods in our Audit Report Nos. 1 through 11, the USAID's Mission sustained US \$ 71,527 of the US \$ 413,369 in unsupported questioned costs. Also, 45 internal control findings comprising 19 reportable conditions under standards established by American Institute of Certified Public Accountants and 26 material weaknesses were identified by us related to previous periods. A reportable condition is related to significant deficiencies in the design or operation of internal control that, in our judgement, could adversely affect the recipients' ability to record, process, summarise and report financial data consistent with the assertions of management in the Schedule. 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. Related to these internal control findings, we were unable to satisfy ourselves that the amounts included in the Schedules related to previous periods were free from material misstatement caused by irregularities, if any. We also identified 13 non-compliance findings in prior periods' audits.
- vi) The status of the 45 internal control findings from prior audits has been reported in detail in Appendix A of the report.
- vii) The USAID Mission has determined that LBGI has so far taken appropriate actions to correct the 45 internal control findings. With respect to the 13 non-compliance findings identified in Audit Report Nos. 1, 3 and 4, USAID's Mission has determined that LBGI has:
 - a) taken appropriate actions to comply with the 11 contract clauses identified in Audit Report No. 1 and with the annual reporting requirement on non-expandable properties discussed in Audit Report No. 3; and
 - b) provided to the Mission all the necessary documents to substantiate compliance with requirements on awarding and execution of the subcontracts listed in Audit Report No. 4.

**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, 2006 to March 31, 2006**

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, 2006 to March 31, 2006. 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. The U.S. Government Auditing Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. 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 for the quarter ended March 31, 2006.
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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5. In accordance with the U.S. Government Auditing Standards, we have also issued our reports dated May 30, 2006 on our consideration of LBGI's internal control over financial reporting and our tests of its compliance with certain provisions of the agreement terms and applicable laws and regulations. Those reports are an integral part of the audit performed in accordance with the scope of work for this audit defined in our contract with USAID and U.S. Government Auditing Standards and should be read in conjunction with this independent auditor's report in considering the results of our audit.
6. This report is intended for the information of LBGI and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



A.F. Ferguson & Co.
Chartered Accountants

Date: May 30, 2006
Islamabad, Pakistan

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
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For the period January 1, 2006 to March 31, 2006

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, 2006 to March 31, 2006

(under Contract Line Item No. 1)

Budget	Actual Costs			Questioned Cost		Note
	Prior period September 1, 2002 to December 31, 2005	Current period January 1, 2006 to March 31, 2006	Cumulative up to March 31, 2006	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)
 Short term technical - Expatriate
 Short term technical - Cooperating
 Country Nationals - (CCN)
 Local personnel
 Post differential
 Danger pay

	-	-	-	-	-
	2,288,933	839,276	3,128,209	-	-
	4,798	-	4,798	-	-
	16,934	-	16,934	-	-
	2,145,947	581,704	2,727,651	-	-
	1,962	-	1,962	-	-
	1,017	-	1,017	-	-
Sub-total	-	4,457,592	1,420,981	-	-

Overseas allowances

Separate maintenance allowances

1,197,928 276,112 1,474,040

Transportation

International travel
 Per diem
 Local travel
 Vehicle maintenance
 Miscellaneous travel expenses

	467,825	57,142	524,967	-	-
	1,358,914	287,975	1,646,889	-	-
	1,430,369	180,038	1,610,406	-	-
	265,303	281,986	547,289	-	-
	34,636	11,642	46,278	-	-
Total	-	3,857,947	818,792	-	-

Non-expendable inventory

Equipment
 Machinery
 Vehicles
 Furniture and fixtures
 Leasehold improvements

	352,171	13,248	365,418	-	-
	106,790	-	106,790	-	-
	203,000	-	203,000	-	-
	38,713	1,392	40,105	-	-
	135,549	-	135,549	-	-
Total	-	816,223	14,639	-	-

Sub total carried forward

10,828,789 2,530,434 12,559,223

The annexed notes form an integral part of this schedule

Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
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For the period January 1, 2006 to March 31, 2006

Loide 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, 2006 to March 31, 2006
 (under Contract Line Item No. 1)

Budget	Actual Costs			Questioned Cost		None
	Prior period September 1, 2002 to December 31, 2005	Current period January 1, 2006 to March 31, 2006	Cumulative upto March 31, 2006	Ineligible costs for current period	Unsupported costs for current period	
US\$						
Costs Included						
Sub-total brought forward		10,008,789	1,530,434	12,539,223	-	-
Office maintenance						
Housekeeping services		468,193	61,012	529,205	-	-
Office supplies		508,311	25,311	601,622	-	-
Household effects		298,972	-	298,972	-	-
Others		1,128,792	40,734	1,169,527	-	-
Total	-	2,404,268	127,057	2,531,327	-	-
Communication						
Phones		211,290	6,235	217,525	-	-
Internet		168,118	-	168,118	-	-
Courier		61,509	51,921	113,430	-	-
Misc		177	-	177	-	-
Total	-	441,094	58,156	500,251	-	-
Technical contracts						
Management		-	-	-	-	-
Roads		24,632	-	24,632	-	-
Schools		51,267	-	51,267	-	-
Medical		9,766	-	9,766	-	-
Waste Water		7,326	-	7,326	-	-
Infrastructure		11,200	-	11,200	-	-
Dams & Irrigation		1,195	-	1,195	-	-
Agriculture		3,158	-	3,158	-	-
Total	-	110,934	-	110,934	-	-
Other direct costs						
Office rent		1,937,584	152,279	2,089,863	-	-
Bank charges		2,285	-	2,285	-	-
Other labor costs		168,089	-	168,089	-	-
Publications		23,811	-	23,811	-	-
Others		184,248	-	184,248	-	-
Total	-	2,336,017	152,279	2,488,296	-	-
Total costs incurred	-	14,879,901	2,867,927	17,747,828	-	-
Programme support fee 8%	-	1,189,521	229,434	1,418,954	-	-
Fixed fee on subcontracts 2%	-	2,219	-	2,219	-	-
Total costs incurred in CLIN 1	111,460,345	16,271,671	3,097,361	19,369,032	-	-

The annexed notes form an integral part of this schedule

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
 Audit Report No. 12
 Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
 For the period January 1, 2006 to March 31, 2006**

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, 2006 to March 31, 2006
 (under Contract Line Item No. 2)

Budget	Actual Costs			Questioned Cost		Note
	Prior period April 1, 2004 to December 31, 2005	Current period January 1, 2006 to March 31, 2006	Cumulative upto March 31, 2006	Ineligible costs for current period	Unsupported costs for current period	
US\$						

COSTS INCURRED

Contract Line Item No. 02

Other direct costs

Schools	227,000	-	227,000	-	-
Basic Health Clinics	580,136	-	580,136	-	-
Water and Wastewater	21,725	-	21,725	-	-
Kabul-Kandahar Highway	4,678	-	4,678	-	-
Dams and Irrigation	1,000	-	1,000	-	-
Power and Energy	293,070	-	293,070	-	-
Kandahar-Herat Highway	56,552	-	56,552	-	-

Total costs incurred	1,185,060	-	1,185,060	-	-
Fixed fee on subcontracts 2%					
Total costs incurred in CLIN 2	565,530,257	1,185,060	-	1,185,060	-

The annexed notes form an integral part of this schedule

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

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 quarter ended March 31, 2006 is based on invoice Nos. 155, 159, 163 and 167.

3. Budgetary allocations for the REFS contract

The budget allocation of US \$ 677 million is based on modification number 23 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	565,539,257
	<hr/> <u>677,000,000</u>

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

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, 2006 to March 31, 2006 for Contract Line Item No. 1 and have issued our report on that audit dated May 30, 2006.
2. We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Controller General of the United States with the exception that our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.
3. The management of LBGI is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

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 LBGIL for the period January 1, 2006 to March 31, 2006, 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. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weakness under standards established by the American Institute of Certified Public Accountants (AICPA). A material weakness is a reportable condition in which the design or operation of one or more of the specific 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. We noted no matters involving internal control and its operation that we consider to be material weakness as defined above.
6. This report is intended for the information of Louis Berger Group Inc and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



A.F. Ferguson & Co.
Chartered Accountants

Date: May 30, 2006
Islamabad, Pakistan

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

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, 2006 to March 31, 2006 for Contract Line Item No. 1 and have issued our report on that audit dated May 30, 2006.
2. We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Controller General of the United States with the exception that our continuous education programme is confined to courses arranged by the Institute of Chartered Accountants of Pakistan, courses conducted internally by the firm and computer based training courses developed internationally by PricewaterhouseCoopers and that our external quality control review has been conducted by the Institute of Chartered Accountants of Pakistan and such review was not conducted by an unaffiliated audit organization, and for matters referred to in paragraph 4 below. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the amounts reflected in the Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00.
3. Compliance with agreement terms and laws and regulations applicable to Louis Berger Group Inc is the responsibility of Louis Berger Group Inc's management. As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, 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. The results of our tests disclosed no instances of noncompliance that are required to be reported here under U.S. Government Auditing Standards.

**Rehabilitation of Economic Facilities and Services (REFS) Programme for Afghanistan
Audit Report No. 12
Schedule of local costs billed to USAID under contract No. 306-C-00-02-00500-00
For the period January 1, 2006 to March 31, 2006**

5. This report is intended for the information of USAID and LBGI. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.



A.F. Ferguson & Co.
Chartered Accountants

Date: May 30, 2006
Islamabad, Pakistan

Report on Internal Control

Progress review on internal control issues identified in the previous audits

Our Observations and
recommendations

Progress
by LBGI management

Reportable conditions

RA Financial Controls

RA-1 Financial transactions not classified at adequate detailed level

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

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

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

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

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

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

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

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

Report on Internal Control

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.

RA9-1 Purchase order numbers not noted on the related supplier invoices.

Purchase order number is noted on all related supplier invoices at the time of payment processing.

Implemented: Purchase order numbers are now noted on all supplier invoices for proper tracing of individual supplier invoices to the related purchase orders on timely basis.

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.

Implemented: A local employee policy handbook has been developed and approved by the administration office and distributed to all local employees of LBGI. Acknowledgements of such distribution are filed in personnel files.

Report on Internal Control

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>
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>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

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>Implemented: A list of all items having a unit cost value of US\$ 500 or more and having useful life in excess of two years has already been compiled and implemented, effective from August 2004 in accordance with the requirements of USAIDAR 752.245.70. The contents of this listing now include reference to related payment documents and item codes. Consequently, now it is possible to trace items listed in the non-expendable inventory listing to the payment documents in the financial records and to the items on floor.</p>
<p>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>Implemented: LBGI has prepared Reconciliation between the standard quantity of Bitumen consumed by subcontractors for four sections of Kabul – Kandahar highway project and the quantity of Chemcrete supplied by LBGI to subcontractors for production of Bitumen.</p>

Report on Internal Control

Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBGI management
<p>RC9-1 Inventory listing not reconciled with the records maintained by the finance department.</p> <p><i>Non-expendable inventory listing maintained by the logistics department is reconciled with the records of the finance department on monthly basis.</i></p>	<p>Implemented: Non-expendable inventory listing maintained by the logistics department has been reconciled with the records of the finance department.</p>
<p>RC10-1 Policy and procedure for identification of damaged and/or obsolete inventory not defined</p> <p><i>Complete Logistics and IT department jointly develop policy and procedure related to identification of obsolete and damaged inventory items and after formal approval of the management, such policy and procedure is effectively implemented.</i></p>	<p>Implemented: A policy has been formally approved by the management of LBGI in this regard and implementation of the same has been initiated.</p>
<p>RC10-2 Inventory items procured under REFS by LBGI and the sub-contractor not separately identifiable at the field location visited by us.</p> <p><i>All inventory items procured for REFS programme by LBGI are affixed with identification codes and it is ensured at field locations that such inventory items are separately identifiable at all times for effective physical control.</i></p>	<p>Implemented: Identification codes have been affixed on all inventory items procured for REFS programme and are separately identifiable from inventory procured by the sub contractors.</p>

Report on Internal Control

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

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</p> <p>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</p> <p>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>Implemented: Same as MA-1 above.</p> |
| <p>MA-3</p> <p>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</p> <p>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

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>
<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>

Report on Internal Control

Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress by LBGI management
<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>Implemented: For expenses incurred in currencies other than US \$, quotations are obtained from the local moneychangers and currency conversion takes place at prevailing rates. Related policy has now been approved by the management of LBGI.</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

Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations

Progress by LBG I management

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

Report on Internal Control

Progress review on internal control issues identified in the previous audit

Our Observations and recommendations	Progress By LBG I 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 LBG I 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, LBG I has purchased 25 new armored vehicles.</p>

Report on Internal Control

Progress review on internal control issues identified in the previous audit

Our Observations and recommendations	Progress By LBG I management
<p>MA8-1 Differences in the information related to local personnel as per records of the Personnel Department and records maintained by the Finance Department</p> <p><i>Personnel information of local staff is updated regularly in relation to personnel files and is agreed with salary records of the Finance Department on a timely basis.</i></p>	<p>Implemented: Personal information of local staff has been updated in relation to their personal files and reconciled with related records maintained by the Finance Department.</p>
<p>MA8-2 Payment Vouchers in Herat Office not numbered.</p> <p><i>All payment vouchers are numbered as referred to the cashbook by their numbers.</i></p>	<p>Implemented: With effect from June 1, 2005 all payment vouchers in Herat Office are now numbered and referred to in the cashbook by their numbers.</p>
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 LBG I</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>

Report on Internal Control

Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations	Progress By LBGI management
<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>
<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>Implemented: Physical verification of items of REFS currently in USPI's possession is undertaken after every three months and related physical verification report is issued to the management of LBGI.</p>

Report on Internal Control

Progress review on internal control issues identified in the previous audit

Our Observations and Recommendations

Progress By LBGi management

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

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

Implemented: Inventory codes have been pasted on all inventory items to ensure that inventory management system is consistently enforced at all locations of REFS Programme.

MC General

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

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.

Implemented: Segregation of duties has been introduced in the CIS department to the extent possible.