

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 17-55 Financial Audit

USAID's Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant: Audit of Costs Incurred by Da Afghanistan Breshna Sherkat

On September 21, 2017, the USAID Mission for Afghanistan informed SIGAR about discrepancies in the total incurred costs within the issued July 2017 audit report. After further review, SIGAR's auditors determined that information provided to them contained additional incurred costs that were not within the scope of the audit. SIGAR has removed the additional expenditures outside the scope of the audit. This is the revised report, re-issued on August 14, 2018.

In accordance with legal requirements, SIGAR has redacted certain information deemed proprietary or otherwise sensitive from this report



SIGAR 17-55-FA/Kajaki Unit 2

AUGUST
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 22, 2013, the U.S. Agency for International Development (USAID) signed a \$75 million implementation letter (IL) for Da Afghanistan Breshna Sherkat (DABS) to install turbine generator unit 2 at the Kajaki Dam hydropower plant, located in Helmand province. The IL's purpose was to support the Kajaki Unit 2 Project in expanding and improving Afghanistan's electricity generation capacity to provide affordable, reliable, and sustainable power to Afghans. In early 2013, at the Afghan government's request, USAID removed the installation of unit 2 from its Kandahar Helmand Power Project and transferred that responsibility to the Afghan government. USAID amended the IL to extend the period of performance from December 1, 2014, to February 29, 2016.

SIGAR's financial audit, performed by Mayer Hoffman McCann (MHM), reviewed \$26,323,329 in expenditures that DABS charged to the IL for the period from January 1, 2015, through December 31, 2015. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DABS's internal controls related to the IL; (2) identify and report on instances of material noncompliance with the terms of the IL and applicable laws and regulations, including any on potential fraud or abuse; (3) determine and report on whether DABS has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DABS's Special Purpose Financial Statement (SPFS). See MHM's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where MHM did not comply, in all material respects, with U.S. generally accepted government auditing standards.

August 2018

USAID's Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant: Audit of Costs Incurred by Da Afghanistan Breshna Sherkat

SIGAR 17-55-FA

WHAT THE AUDIT FOUND

MHM identified four material weaknesses in DABS's internal controls and three instances of noncompliance with the terms and conditions of the IL and applicable regulations. MHM found that DABS's subcontractor GFA Consulting Ltd (GFA) could not provide sufficient documentation, such as personnel records, direct costs, contracts, and procurement files, for \$15,203,531 in costs. Therefore, MHM could not determine whether those costs were reasonable, allowable, and allocable to the IL. In addition, MHM found that another DABS subcontractor, 77 Construction Company, could not provide documentation to support competitive procurements or sole source justifications, resulting in \$8,872,343 in questioned costs. MHM also found that DABS did not prepare bank reconciliations for its bank account, and GFA did not provide any bank reconciliations, which resulted in an internal control finding but no questioned costs.

As a result of these internal control deficiencies and instances of noncompliance, MHM identified \$24,075,874 in total questioned costs, consisting of \$7,366 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—and \$24,068,508 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Subcontractors	\$7,366	\$0	\$7,366
Costs Incurred	\$0	\$24,068,508	\$24,068,508
Totals	\$7,366	\$24,068,508	\$24,075,874

MHM identified nine prior audit findings and recommendations pertinent to DABS's performance under the IL that could have a material effect on the SPFS. Accordingly, MHM reviewed the corrective actions DABS has taken and determined that it implemented only two of the nine recommendations adequately. Two of the unimplemented recommendations addressed GFA using sole source procurement for goods and services without justification, and not selecting the lowest bidder in the procurement process, resulting in excessive costs.

MHM issued a disclaimer of opinion on DABS's SPFS because several transactions, totaling \$24,075,874, were questionable due to missing or insufficient documentation, or a lack of evidence of competitive bidding.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible agreement officer at USAID:

1. **Determine the allowability of and recover, as appropriate, \$24,075,874 in questioned costs identified in the report.**
2. **Advise DABS to address the report's four internal control findings.**
3. **Advise DABS to address the report's three noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

August 14, 2018

The Honorable Mark Green
USAID Administrator

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann (MHM) to audit the costs incurred by Da Afghanistan Breshna Sherkat (DABS) under a U.S. Agency for International Development (USAID) implementation letter to support the installation of turbine generator unit 2 at the Kajaki Dam hydropower plant.¹ MHM's audit reviewed \$26,323,329 in expenditures DABS charged to the implementation letter from January 1, 2015, through December 31, 2015. Our contract with MHM required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible agreement officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$24,075,874 in questioned costs identified in the report.**
- 2. Advise DABS to address the report's four internal control findings.**
- 3. Advise DABS to address the report's three noncompliance findings.**

The results of MHM's audit are discussed in detail in the attached report. We reviewed MHM's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DABS's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DABS's internal control or compliance with the implementation letter, laws, and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which MHM did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-091)

¹ USAID signed implementation letter no. 56 with DABS. The letter's purpose was to support the Kajaki Unit 2 Project in expanding and improving Afghanistan's electricity generation capacity to provide affordable, reliable, and sustainable power to Afghans.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred Under
Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2
at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

Table of Contents

	<u>Page</u>
Transmittal Letter	
Background	1
Work Performed	2
Objectives, Scope, and Methodology	2
Summary of Results	4
Review of Prior Findings and Recommendations	6
Summary of DABS' Responses to Findings	6
Independent Auditor's Report on Special Purpose Financial Statement	7
Special Purpose Financial Statement	10
Notes to Special Purpose Financial Statement	11
Notes to Questioned Costs on Special Purpose Financial Statement	13
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	14
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	17
Status of Prior Findings	19
Detailed Audit Findings	22
Appendices:	
Appendix A: DABS' Responses to Findings	34
Appendix B: Auditor's Rebuttal to DABS' Responses to Findings	38



Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200 ■ Irvine, CA 92612
Main: 949.474.2020 ■ Fax: 949.263.5520 ■ www.mhmcpa.com

May 29, 2018

Enclosed is the revised final report on the financial audit of costs incurred under Implementation Letter Number IL-56, ("Implementation Letter"), signed between the United States Agency for International Development ("USAID") and Da Afghanistan Breshna Sherkat ("DABS") for the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant in Afghanistan. The audit covers the period January 1, 2015 through December 31, 2015.

Included within the revised final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from DABS, the Special Inspector General for Afghanistan Reconstruction and USAID. Management of DABS has prepared responses to the findings identified during our audit and those responses are included as part of this report. The responses have not been audited and we express no opinion on them.

Sincerely,

Mayer Hoffman McCann P.C.

A handwritten signature in blue ink, appearing to read "Marcus D. Davis", is written over a horizontal line.

Marcus D. Davis, CPA
Shareholder

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

Background

On April 22, 2013, the United States Agency for International Development (“USAID”) signed Implementation Letter No. IL-56 (“Implementation Letter” or “IL”) in the amount of \$75,000,000 to Da Afghanistan Breshna Sherkat (“DABS”) for the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant (“Kajaki Dam Project”). The Implementation Letter is executed in reference to USAID Strategic Objective Grant Agreement (“SOGA”) for a Thriving Economy Led by Private Sector (USAID Grant Agreement No. 306-05-00). The purpose of the IL was to support the objective of the Kajaki Unit 2 Project in expanding and improving Afghanistan's electricity generation capacity to provide affordable, reliable and sustainable power to a greater number of Afghans. The IL stated that electrification of Afghanistan will be a key driver for economic growth and modernization. Furthermore, the IL highlighted that increased power availability and accessibility through Kajaki Unit 2 is essential to Afghanistan's continued political, economic and social development. The Implementation Letter was amended four times for reasons such as modifying contract clauses and determining the award type, as well as granting an extension of the project. Amendment No. 4 extended the period of performance from December 1, 2014 through February 29, 2016.

According to USAID's Project Authorization of the Kandahar Helmand Power Project (“KHPP”) dated March 27, 2013, installation of the Kajaki Dam Project was one of six components previously contracted under the USAID funded KHPP, an off-budget project. In early 2013, the Government of Islamic Republic of Afghanistan (“GIRoA”) requested that this activity be implemented directly through the Afghan Government on-budget. Based on this request, USAID descoped the installation of the Kajaki Dam Project from KHPP and funded the installation through a separate on-budget bilateral subobligation to GIRoA.

DABS utilized two major subcontractors to implement the Kajaki Dam Project as follows:

- GFA Consulting Ltd. (“GFA”) provided Construction Management – At Risk (“CM-AR”) services to continue and complete the engineering design work that was started on KHPP, as well as completion of the assessment of the condition of government furnished equipment, procuring turbine-installation services, management of the turbine-installation subcontractor, maintaining security at the Kajaki Dam Project site, and provide all life support and helicopter transport. GFA's headquarters are in Dubai, United Arab Emirates (“UAE”) with a field office in Kabul, Afghanistan. According to DABS, GFA terminated its operations on the project on February 29, 2016. The reasons for the termination were unknown.
- 77 Construction Company (“77 Construction”) was contracted to install the Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant. 77 Construction is a U.S. Corporation based in Rochelle Park, New Jersey with a field office in Kabul Afghanistan.

DABS is an independent and autonomous company established under The Corporations and Limited Liabilities Law of the Islamic Republic of Afghanistan. DABS is a limited liability company with all of its equity shares owned by GIRoA. DABS was incorporated on May 04, 2008 (15 Saur 1387) and replaced Da Afghanistan Breshna Moassassa (“DABM”) as the national power utility. DABS operates and manages

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

electric power generation, import, transmission and distribution throughout Afghanistan on a commercial basis.

Work Performed

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of DABS' Special Purpose Financial Statement ("SPFS") for costs incurred under the Implementation Letter for the period January 1, 2015 through December 31, 2015. Total costs incurred by DABS and subject to audit during this period were \$26,323,329.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether DABS' SPFS for the Implementation Letter presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of DABS' internal control related to the Implementation Letter; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether DABS complied, in all material respects, with the Implementation Letter requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Implementation Letter and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether DABS has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period January 1, 2015 through December 31, 2015 under the Implementation Letter.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

Methodology

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held via conference call on October 5, 2016. Participants included representatives of MHM, HLB Ijaz Tabussum & Company, DABS, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of DABS;
- Reviewed the Implementation Letter and all modifications to date;
- Reviewed regulations specific to USAID that are applicable to the Implementation Letter;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - o For accounts that appeared to contain unallowable and restricted items according to the terms of the Implementation Letter, 2 CFR 200 and any other applicable regulations, we tested 100% of the transactions.
 - o For high risk cost categories, we sampled individual transactions greater than \$79,000, not to exceed 50% of the total amount expended for each cost category.
 - o For medium risk cost categories, we sampled individual transactions greater than \$158,000, not to exceed 20% of the total amount expended for each cost category.
 - o For low risk cost categories, we individual sampled transactions greater than \$158,000, not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk categories.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the SPFS

We reviewed DABS' internal controls related to the SPFS. This review was accomplished through interviews with management and key personnel and testing controls of major subcontractors.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Implementation Letter, modifications, and major subcontractors and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

Corrective Action on Prior Findings and Recommendations

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Traced the costs on the SPFS to the Implementation Letter, modifications and subcontracts; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract and reasonable.

Exit Conference

An exit conference was held on April 4, 2017 via conference call. Participants included MHM, HLB Ijaz Tabussum & Company, DABS, 77 Construction, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by DABS under the Implementation Letter with USAID identified the following audit results. Findings are classified as either internal control, compliance or a combination of internal control and compliance.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

Auditor's Opinion on SPFS

We issued a disclaimer of opinion on the fairness of the presentation of the SPFS. We also identified \$24,075,874 of questioned costs under the Implementation Letter. A summary of findings and questioned costs is as follows:

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2017-1	Internal control – material weakness Compliance	Missing or insufficient documentation provided for GFA	\$15,203,531	\$15,203,531
2017-2	Internal control – material weakness Compliance	Lack of evidence of competitive bidding by 77 Construction	\$0	\$15,203,531
2017-3	Internal control – material weakness Compliance	Costs paid to subcontractors without proper procurement documentation by 77 Construction	\$8,872,343	\$24,075,874
2017-4	Internal control – material weakness	Bank reconciliations not provided	\$0	\$24,075,874

Internal Control Findings

Our audit discovered four material weaknesses in internal control. See Independent Auditor's Report on Internal Control on page 14. The complete management responses from DABS to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Implementation Letter and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed three instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 16. The complete management responses from DABS to each of the compliance findings can be found in Appendix A to this report.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

For the Period January 1, 2015 through December 31, 2015

Review of Prior Findings and Recommendations

We requested copies of prior engagements including audits, reviews and evaluations pertinent to DABS' activities under the Implementation Letter. We identified nine findings and recommendations from prior engagements that could have a material effect on the SPFS and reviewed the corrective actions taken to address the findings and recommendations. See the Status of Prior Findings on page 18 for a detailed description of the prior findings and recommendations.

Summary of DABS' Responses to Findings

The following represents a summary of the responses provided by DABS to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

- Finding Number 2017-1: DABS disagrees with this finding indicating that it provided all information that it had related to GFA's costs to the auditors. DABS also stated that GFA ceased operations and failed to inform DABS, and did not turn over all documents related to the project.
- Finding Number 2017-2: DABS disagrees with this finding, indicating that 77 Construction vetted all potential suppliers and obtained approval from USAID. DABS further indicates that evidence of fair market price verifications and evaluations were performed and could be provided for review.
- Finding Number 2017-3: DABS disagrees with this finding, indicating that the bank reconciliations are prepared by the Afghan Ministry of Finance and were provided during the audit.



INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Report on the Special Purpose Financial Statement

We were engaged to audit the accompanying Special Purpose Financial Statement of Da Afghanistan Breshna Sherkat ("DABS") under Implementation Letter Number IL-56 ("Implementation Letter"), with the United States Agency for International Development ("USAID") for the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant Project ("Kajaki Dam Project") for the period January 1, 2015 through December 31, 2015, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on conducting an in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Basis for Disclaimer of Opinion

We identified several transactions totaling \$24,075,874 that were questionable due to missing or insufficient documentation provided, as well as a lack of evidence of competitive bidding. Included in the subcontractor costs is \$15,203,531 attributable to GFA Consulting, for which sufficient appropriate audit evidence was not provided for \$15,196,165 of this amount. As a result, we were unable to determine whether these costs were reasonable, allowable and allocable to the Implementation Letter. Additionally, we identified other transactions totaling \$8,879,709 that were questionable due to overpayments and a lack of evidence of competitive bidding. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Special Purpose Financial Statement reporting the respective revenue received and costs incurred by DABS under the Implementation Letter for the period January 1, 2015 through December 31, 2015.

Restriction on Use

This report is intended for the information of DABS, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 20, 2017 on our consideration of DABS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, Implementation Letter, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DABS' internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Mayer Hoffmann, P.C.".

Irvine, California
June 20, 2017

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Special Purpose Financial Statement

For the Period January 1, 2015 through December 31, 2015

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
Implementation Letter No. IL-56	<u>\$ 75,000,000</u>	<u>\$ 26,323,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(3)
Total revenues	<u>75,000,000</u>	<u>26,323,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Subcontractors	<u>75,000,000</u>	<u>26,323,329</u>	<u>7,366</u>	<u>24,068,508</u>	<u>24,075,874</u>	(4), (A)
Total costs incurred	<u>75,000,000</u>	<u>26,323,329</u>	<u>7,366</u>	<u>24,068,508</u>	<u>24,075,874</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,366)</u>	<u>\$ (24,068,508)</u>	<u>\$ (24,075,874)</u>	(B)

See Notes to Special Purpose Financial Statement
and Notes to Questioned Costs Presented on Special Purpose Financial Statement

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Notes to Special Purpose Financial Statement¹

For the Period January 1, 2015 through December 31, 2015

(1) **Background**

On April 22, 2013, the United States Agency for International Development ("USAID") awarded Implementation Letter No. IL-56 ("Implementation Letter") to Da Afghanistan Breshna Sherkat ("DABS") for the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant ("Kajaki Dam Project"). The Implementation Letter is executed in reference to USAID Strategic Objective Grant Agreement ("SOGA") for a Thriving Economy Led by Private Sector (USAID Grant Agreement No. 306-05-00). DABS utilized two major subcontractors under the Implementation Letter, GFA Consulting ("GFA") and 77 Construction Company ("77 Construction"). The Implementation Letter was amended four times for reasons such as modifying contract clauses and determining the award type, as well as granting an extension of the project. Amendment No. 4 extended the period of performance to February 29, 2016.

(2) **Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying Special Purpose Financial Statement ("SPFS") includes costs incurred for the Kajaki Dam Project under the Implementation Letter for the period January 1, 2015 through December 31, 2015. Because the SPFS presents only a selected portion of the operations of DABS, it is not intended to and does not present the financial position, changes in financial position, or cash flows of DABS. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction ("SIGAR"), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Implementation Letter.

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 2 CFR 200 Subpart E, *Cost Principles*.

Currency

DABS reporting currency is Afghanis. DABS converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by using the current exchange rate obtained from the local Afghan bank.

¹ The Notes to Special Purpose Financial Statement are the responsibility of DABS.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred Under
Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2
at Kajaki Dam Hydropower Plant

Notes to Special Purpose Financial Statement

(Continued)

(3) Revenue

As of December 31, 2015, DABS has reported \$26,323,329 in revenue from USAID under the Implementation Letter. This revenue equals the costs incurred for the period January 1, 2015 through December 31, 2015.

(4) Costs incurred by Budget Category

The entire budget under the Implementation Letter was subcontracted to GFA and 77 Construction. As such, only one line item for DABS is reflected, subcontractors.

(5) Outstanding Fund Balance (Deficit)

As of December 31, 2015, there was no outstanding fund balance under the Implementation Letter as the SPFS is prepared under the accrual basis of accounting described in Note 2.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Notes to Questioned Costs Presented on Special Purpose Financial Statement²

For the Period January 1, 2015 through December 31, 2015

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable; prohibited by the Implementation Letter or applicable laws and regulations; or not related to the Implementation Letter. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(A) Subcontractors

DABS reported subcontractor costs of \$26,323,329 for the period January 1, 2015 through December 31, 2015. During our audit of these costs, we noted the following which resulted in questioned costs. See Findings 2017-1 and 2017-3.

Finding Number	Observation	Questioned Costs
Ineligible costs:		
2017-1	Salary overpayments	\$ <u>7,366</u>
Total ineligible costs		<u>7,366</u>
Unsupported costs:		
2017-1	Missing or insufficiently supported costs	15,196,165
2017-3	Lack of evidence of competitive bidding	<u>8,872,343</u>
Total unsupported costs		<u>24,068,508</u>
Total questioned costs		<u>\$24,075,874</u>

(B) Outstanding Fund Balance

The total outstanding fund balance as of December 31, 2015 in the amount of \$24,075,874 represents the total questioned costs, consisting of \$7,366 of ineligible costs and \$24,068,508 of unsupported costs.

² The Notes to Questioned Costs on presented on the Special Purpose Financial Statement were prepared by the auditor for information purposes only and as such are not part of the audited Special Purpose Financial Statement.



Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200 ■ Irvine, CA 92612
Main: 949.474.2020 ■ Fax: 949.263.5520 ■ www.mhmcpc.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Da Afghanistan Breshna Sherkat ("DABS") representing revenues received and costs incurred under Implementation Letter Number IL-56, with the United States Agency for International Development ("USAID") for the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant Project ("Kajaki Dam Project") for the period January 1, 2015 through December 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated June 20, 2017. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered DABS' internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of DABS' internal control. Accordingly, we do not express an opinion on the effectiveness of DABS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's special purpose financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify four deficiencies in internal control, described in the accompanying Detailed Audit Findings as Findings 2017-1, 2017-2, 2017-3 and 2017-4 that we consider to be material weaknesses.

DABS' Response to Findings

DABS' response to the findings identified in our audit is included verbatim in Appendix A. DABS' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of DABS' internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of Da Afghanistan Breshna Sherkat, the United States Agency for International Development, and the Special Inspector General for Afghanistan

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in blue ink, reading "Mayer Hoffman McLean P.C.".

Irvine, California
June 20, 2017



Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200 ■ Irvine, CA 92612
Main: 949.474.2020 ■ Fax: 949.263.5520 ■ www.mhmcpa.com

**REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Da Afghanistan Breshna Sherkat ("DABS") representing revenues received and costs incurred under Implementation Letter Number IL-56, with the United States Agency for International Development ("USAID") for the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant Project ("Kajaki Dam Project") for the period January 1, 2015 through December 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated June 20, 2017. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Mr. Qudratullah Delawari
Chief Executive Officer
Da Afghanistan Breshna Sherkat
Chaman Hozori
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DABS' Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and the aforementioned Implementation Letter, noncompliance with which could have a direct and material effect on the determination of Special Purpose Financial Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings and Findings 2017-1, 2017-2 and 2017-3.

DABS' Response to Findings

DABS' response to the findings identified in our audit is included verbatim in Appendix A. DABS' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of Da Afghanistan Breshna Sherkat, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California
June 20, 2017

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Status of Prior Findings

For the Period January 1, 2015 through December 31, 2015

We requested copies of prior engagements including audits, reviews and evaluations pertinent to DABS' activities under the program. We reviewed the corrective actions taken by DABS to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There was one prior engagement with findings and recommendations that were included in the scope of our audit. This engagement identified nine findings with a potential material effect on the SPFS and/or internal control deficiencies effect on the Implementation Letter. Based on our review, adequate corrective actions were implemented on two of the nine prior findings.

Financial Audit of USAID Resources Managed by DABS Under Power Transmission Expansion and Connectivity (PTEC) and the Installation of Turbine Generator Unit at Kajaki Dam Hydropower Plant Projects

There were nine prior findings and recommendations identified in this audit performed by Davis and Associates Certified Public Accountants PLLC. The period covered by the audit was December 5, 2012 through December 31, 2014. Based on our review, adequate corrective actions were implemented only on two of the nine prior findings.

- (1) DABS' subcontractors purchased several motor vehicles, which were restricted goods, under both PTEC and the installation of Turbine Generator projects without USAID approval. Therefore, the auditors recommended that DABS provide documentation of prior approval for the purchase of restricted goods. During our testing of costs, we noted that no restricted goods were purchased under the Implementation Letter. As such, the corrective action has been adequately implemented.
- (2) DABS' subcontractor, Phoenix, procured a 36-month accommodation agreement prior to USAID approval of an amendment to allow such accommodation. In addition, the subcontractor provided inadequate and insufficient competitive procurement documentation to demonstrate the vendor for the accommodation was competitively procured. Finally, the subcontractor purchased other services from the accommodation vendor such as renting office space, conference room, rental vehicles, security services without any competitive procurement process even when the service was over the procured threshold requirement. Therefore, the auditors recommended that DABS' subcontractor provide sole source justifications to USAID for procurements that were not competitively bid. During our testing of costs, no transactions were noted in which costs were incurred prior to USAID approval. However, there were a significant number of transactions incurred by GFA and 77 Construction in which no documentation was provided to support that the vendors or subcontractors were competitively procured. As such, the corrective action has not been adequately implemented. See Findings 2017-1 and 2017-2 in the Detailed Audit Findings section of this report.
- (3) DABS' subcontractor, Phoenix, procured various equipment, services and accommodations from other vendors on a sole source basis, but did not have sufficient documentation to

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Status of Prior Findings

(Continued)

demonstrate the sole source justification. Therefore, the auditors recommended that DABS' subcontractor competitively bid all procurements between \$50,001 and \$500,000 or provide justification for a sole source procurement. During our testing of costs, there were a significant number of transactions incurred by GFA and 77 Construction in which no documentation was provided to support that the vendors or subcontractors were competitively procured, or if the vendor was selected on a sole source basis, no documentation was provided to support the sole source justification. As such, the corrective action has not been adequately implemented. See Findings 2017-1 and 2017-2 in the Detailed Audit Findings section of this report.

- (4) DABS' subcontractor, Phoenix, did not have a limit on cash transactions and paid a majority of its vendors, suppliers, and employees in cash rather than using the banking system. Therefore, the auditors recommended that DABS' subcontractor establish a maximum for cash transactions. We did not note this condition during our testing of costs incurred under the Implementation Letter. As such, the corrective action has been adequately implemented.
- (5) DABS' subcontractor, Phoenix, overbilled per diem allowance for its employees. Therefore, the auditors recommended that DABS' subcontractor comply with its travel policy and payment of per diem amounts. During our testing of transactions for GFA, we noted that the COP's salary was overpaid and thus overbilled under the Implementation Letter. As such, the corrective action has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings section of this report.
- (6) DABS' subcontractor, Phoenix, claimed implementation and development costs on monitoring and review system software, but could not provide supporting documentation and analysis to support the amount claimed was reasonable. Therefore, the auditors recommended that DABS' subcontractor provide adequate documentation to support all costs claimed for reimbursement. During our testing of costs charged under the Implementation Letter, a significant number of transactions were missing documentation or insufficient documentation was provided. As such, the corrective action has not been adequately implemented. See Findings 2017-1 and 2017-2 in the Detailed Audit Findings section of this report.
- (7) DABS' subcontractor, GFA, procured all goods and services using sole source but lacked sole source justification. In addition, GFA lack sufficient supporting documentation for cost incurred under travel, purchase of vehicles, rental of vehicles, security services hired, local employees' payroll, insurances for personnel and other direct costs. Therefore, the auditors recommended that DABS' subcontractor follow its procurement policies and competitively bid all procurements with a cost greater than \$500. During our testing of costs charged to the Implementation Letter, there were a significant number of transactions incurred by GFA in which no documentation was provided to support that the vendors or subcontractors were competitively procured, or if the vendor was selected on a sole source basis, no documentation was provided to support the sole source justification. As such, the corrective action has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings section of this report.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Status of Prior Findings

(Continued)

- (8) DABS' subcontractor, GFA, did not always select the lowest bidder in the procurement process and resulted in excessive costs claimed. Therefore, the auditors recommended that DABS' subcontractor ensure that its costs are reasonable. During our testing of costs charged to the Implementation Letter, there were a significant number of transactions incurred by GFA in which no documentation was provided to support that the vendors or subcontractors were competitively procured and that the lowest bidder was selected for award. As such, the corrective action has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings section of this report.
- (9) DABS' subcontractor, GFA, did not have written policies and procedures in place for travel and finance, had a limited policy for procurement, and did not establish a cash limit for cash transactions and paid some of its local vendors in cash. Therefore, the auditors recommended that DABS' subcontractor prepare written policies and procedures related to payment of transactions in cash. During our testing of costs, we did not note any exceptions as to cash limits. Therefore, this portion of the corrective action has been adequately implemented. However, no written policies and procedures were provided surrounding GFA's procurement. As such, the corrective action has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings section of this report.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

For the Period January 1, 2015 through December 31, 2015

Finding Number 2017-1: Missing or Insufficient Documentation Provided for GFA Consulting

Nature of Finding:

Internal control – material weakness

Non-Compliance

Condition:

DABS subcontracted to GFA Consulting (“GFA”) on the Kajaki Dam Project, which provided Construction Management-At Risk (“CM-AR”) services for the installation of turbine generator 2 at the Kajaki Dam Hydropower Plants. GFA charged \$15,203,531 in costs, including a \$723,978 profit, for the period January 1, 2015 through December 31, 2015. During the testing procedures, the auditors determined that all GFA costs were missing documentation, including policies and procedures, and thus insufficiently supported in order to determine that the costs were reasonable, allowable and allocable to the Implementation Letter. For all transactions tested, the missing documentation included:

Personnel:

- Evidence of payment to employees, whether in the form of a bank transfer, check or acknowledgment signed by the employee if paid in cash was not provided, thus no determination could be made as to whether employees were actually paid;
- No employee personnel files, education records, leave records, past employment history of GFA employees was provided, thus no determination could be made to determine whether employees were qualified for the positions to which they were charged under the Implementation Letter; and
- Evidence that tax on payroll was withheld and paid to the Afghan Government was not provided.

In addition to having missing or insufficient personnel documentation: (1) the Chief of Party’s salary and another employee’s salary were added together and claimed during the month of May 2015, but the total of the two salaries was incorrect; and (2) the Chief of Party (“COP”) was paid for the full month of October 2015 when he should have been paid for only 23 days. This resulted in overpayments as follows:

Overpayment of combined salaries	\$ 620
Overpayment to COP	<u>6,746</u>
Total overpayments	<u>\$7,366</u>

Direct Costs:

- Evidence of payment to vendors, whether in the form of bank transfer, check or acknowledgement signed by the vendor if paid in cash was not provided, thus no determination could be made as to whether the vendors were actually paid;

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

- Contracts and agreements for subcontractors were not provided, thus no determination could be made to determine whether the subcontractors were paid in accordance with the terms of the individual contracts and agreements; and
- Procurement files were not provided, thus no determination could be made as to whether vendors and subcontractors were competitively procured and that prices represented market prices.

DABS responded to all requests for documentation from GFA and provided all documentation it had related to GFA, as GFA ceased operations in May 2016 and was not available to respond directly to audit requests.

Additionally, DABS had prior audit findings related to the lack of documentation as reported in a financial audit of USAID resources managed by DABS under Power Transmission Expansion and Connectivity (PTEC) and the installation of a turbine generator unit at Kajaki Dam Hydropower Plant.

Criteria:

Automated Directive Systems (ADS) Section 591.3.7 *Auditor Access to Recipient Records*, states:

“The Comptroller General of the United States, the USAID Office of Inspector General, and any other duly authorized representative auditor must have access to all pertinent books, documents, and records of recipients and subrecipients in order to perform audits and examinations, and to make excerpts, photocopies, and transcripts.”

Implementation Letter No. IL-56, Section G.8, *Financial Reports and Audits*, states, in part:

“...The Grantee shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show, without limitation, all costs incurred directly by the Grantee under the Agreement, the receipt and use of goods and services acquired by the Grantee under the Agreement...The Grantee shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States...Agreement books and records shall be maintained for at least three years after the date of last disbursement by USAID or for such longer period, if any, required to resolve any litigation, claims or audit findings.

2 CFR 200.403, *Factors affecting allowability of costs*, states, in part:

“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:...

(g) Be adequately documented...”

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

Cause:

DABS did not adequately monitor GFA, nor obtained documentation from GFA once it ceased operations to ensure that GFA's costs incurred were fully supported and available for audit as required by the ADS, Implementation Letter and CFR.

Effect:

Failure to monitor subcontractors to ensure that adequate supporting documentation is maintained resulted in an inability to demonstrate that costs incurred were reasonable, allowable allocable and related to the Implementation Letter. In addition, ineligible costs incurred related to overpayments for personnel services raises concerns about the propriety of GFA's billings to DABS and the extent of such charges.

Questioned Costs:

Total questioned subcontractor costs is as follows:

	<u>Questioned Costs</u>
Ineligible costs:	
Overpaid personnel costs	\$ <u>7,366</u>
Total ineligible costs	<u>7,366</u>
Unsupported costs:	
Missing or insufficiently supported costs	<u>15,196,165</u>
Total unsupported costs	<u>15,196,165</u>
Total questioned costs	<u>\$15,203,531</u>

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

Recommendation:

- (1) We recommend that DABS return \$7,366 to USAID for overpaid personnel costs.
- (2) We recommend that DABS either provide documentation to USAID that subcontractor costs paid to GFA were properly supported through evidence of payments to employees, personnel files demonstrating qualifications of employees, evidence of payments of taxes to the Afghan Government, evidence of payments to vendors and evidence that all vendors and subcontractors were competitively procured, or return \$15,196,165 to USAID for unsupported or insufficiently supported costs.
- (3) We recommend that DABS establish procedures to select and monitor its subcontractors to ensure that costs incurred and claimed by its subcontractors were actually incurred and supported in accordance with terms of the subcontract and federal regulations.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

Finding Number 2017-2: Lack of Evidence of Competitive Bidding by 77 Construction

Nature of Finding:

Non-Compliance

Condition:

DABS subcontracted to 77 Construction Company ("77 Construction") on the Kajaki Dam Project to install turbine generator 2 at the Kajaki Dam Hydropower Plants. 77 Construction used a number of vendors and subcontractors on the Kajaki Dam Project. During the auditing process we determined that 77 Construction was not able to provide procurement related documentation to support the evaluation and selection process of vendors or sole source justifications.

Criteria:

Islamic Republic of Afghanistan, *Procurement Law, 2008*, Article 21, Request for Quotations, states, in part:

"(1) Request for quotations shall be presented when a record is made in the procurement proceedings that the estimated value does not exceed the maximum amount set in Article 91(1)(viii) of this Law for the procurement of (i) Readily available commercially standard goods not specially manufactured to the particular specifications of the procuring organization, (ii) Works, (iii) Services...

(3) The request for quotations shall be submitted to at least three qualified bidders...

(6) The bidder that provided the lowest-priced quotation meeting the requirements of the procuring entity, as stated in the request shall be selected as the winner."

Contract Agreement Volume I General Conditions for Installation of Turbine Generator Unit #2 at Kajaki Dam Hydropower Plant by and between Da Afghanistan Breshna Sherkat (DABS) and 77 Construction USA, Section 10.2.9.1, *Project Schedule*, states, in part:

"...Construction engineering design shall be shown in sufficient detail to clearly define all area and system design activities and the interrelationship between design disciplines. Procurement of equipment and materials shall be shown in sufficient detail to identify each purchase order review issue, bid issue, bid preparation, negotiation, award, informational submittals (by discipline and type), and deliver to the site, including shipping durations..."

The above section of the contract between DABS and 77 Construction indicates that 77 Construction needs to report details on its procurement efforts that include bid preparation, negotiation and award. While the phrase "competitive procurement" is not used in the contract, the contract implies that a

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

competitive procurement is required, which is in line with a general preference for competition found in Afghan Procurement Law..

Cause:

DABS did not adequately monitor 77 Construction to ensure that the vendors and subcontractors used by 77 Construction were competitively procured in accordance with Afghan Procurement Law.

Effect:

Lack of adherence to Afghan Procurement Law related to procurement to ensure vendors and subcontractors are selected on a competitive basis can result in the acquisition of goods and/or services that are not competitively priced.

Questioned Costs:

We did not identify questioned costs related to this finding.

Recommendation:

We recommend that DABS establish procedures in order to monitor its subcontractors to ensure that vendors and contractors used by its subcontractors are competitively procured as required by the Islamic Republic of Afghanistan.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

Finding Number 2017-3: Costs Paid to Subcontractors without Proper Procurement Documentation by 77 Construction

Nature of Finding:

Internal control – material weakness
Non-Compliance

Condition:

DABS subcontracted to 77 Construction Company (“77 Construction”) on the Kajaki Dam Project to install turbine generator 2 at the Kajaki Dam Hydropower Plants. 77 Construction charged \$11,119,799 in costs, including a \$2,432,447 profit, for the period January 1, 2015 through December 31, 2015. 77 Construction used a number of vendors and subcontractors on the Kajaki Dam Project. During the auditing process we determined that 77 Construction submitted expenses for 67 different vendors for which documentation was not provided to support the vendor selection or demonstrated the full procurement process. Total costs for which no documentation was provided was \$7,278,378.

Criteria:

Islamic Republic of Afghanistan, *Procurement Law, 2008*, Article 21, Request for Quotations, states, in part:

“(1) Request for quotations shall be presented when a record is made in the procurement proceedings that the estimated value does not exceed the maximum amount set in Article 91(1)(viii) of this Law for the procurement of (i) Readily available commercially standard goods not specially manufactured to the particular specifications of the procuring organization, (ii) Works, (iii) Services...

(3) The request for quotations shall be submitted to at least three qualified bidders...

(6) The bidder that provided the lowest-priced quotation meeting the requirements of the procuring entity, as stated in the request shall be selected as the winner.”

Islamic Republic of Afghanistan, *Procurement Law, 2008*, Article 24, Single-Source Procurement, states, in part:

“(1) Single-source procurement is permitted only in the following circumstances:

(i) the decision of the Procurement Committee supported by its written justification, included in the record of the procurement proceeding; demonstrates that only one contractor is able to fulfill the procurement requirements within the time required;

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

“(ii) the contractor has exclusive rights in the goods, works or services needed, in accordance with the provisions of this Law, for which no adequate substitute exists; or

(iii) when there is an emergency need for the goods, works or services, involving an imminent threat to public health, welfare, or safety, or an imminent threat of damage to property, and the time required for engaging in tendering proceedings or other procurement methods would be impractical.

(iv) The estimated value of the procurement does not exceed 3000 Afs.

(2) A written procurement contract must be used for single-source procurement. The procuring entity shall prepare a written description of its requirements as to quality, quantity, terms, time of delivery, and any special requirements, and shall be required to negotiate with the bidder, in accordance with the related procedures.”

Cause:

DABS did not adequately monitor 77 Construction to ensure that the vendors and subcontractors used by 77 Construction were competitively procured in accordance with the Afghan Procurement Law.

Effect:

Lack of adherence to Afghan Procurement Law related to procurement to ensure vendors and subcontractors are selected on a competitive basis can result in the acquisition of goods and/or services that are not competitively priced. In addition, effective procurement policies and procedures are critical in order to ensure funds expended are reasonable, allowable and allocable to the award.

Questioned Costs:

Total unsupported subcontractor costs, by vendor, including pro-rated profit, due to a lack of competitive bidding is as follows:

<u>Vendor</u>	<u>Questioned Costs</u>
77 Construction Contracting and trading Company	\$ 792,280
A4tech Ltd	148
Abdul Wadood Menawaal	15,510
Afghan Adalat Supplies Logistic Co	6,667
Air Fast Network Solution	100
Aryana Hafiz Company	580
ATA Commerce Ltd.	95
Band Kajaki Sakhtmani Shirkat	20,580
Bayan Supply and Logistics	55,944

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

<u>Vendor</u>	<u>Questioned Costs</u>
BDCC Construction and Supply	\$ 4,500
Cement Dealer Zulmai Khan	7,948
Crystal Moqadas Ltd.	53
Dal Haj Haji Mulam SB Barki Workshop	78
Damlak Paktiwal Chob Froshi	6,620
Diamond Geo Engineering Services	1,960
Diesel Technical Engineering	750
Fateh Khan Construction Company	754,850
Gerdezi Construction Material Store	1,557
Haji Tor Jan Company	1,107
Hajizada Store	8,640
Hasan Murad	600
Hask Engineering Services	3,033
Hi Standard Pipe Company	2,401
Hidro Dizayn	150,296
Hilal Electric	7,294
Hiward Mobile Center	775
Ilham Safa Gasmi Ltd.	57
Itihadi Transport	200
Kabul Paiman Construction Material	10,464
Kalanter Ewaz Ali Store	358
Kalanter Ewaz Industrial Company	1,930
Kandhar Bus Transport	1,524
Khapelwaak Computer Ltd.	1,908
M.Rasool Construction Material	18,375
Mahboob Noori Trading Company	1,621
Menadar Shanwari Transportation Int. Company	2,530
Muhammad Fateh Afzal	1,000
Muhammad Hospital	149
Muhammad Sadiq and Haji Muhammad Sarwar Construction Material Store	154
Muhammad Shafir Construction Store	320
Nawi Ghelji Supply and Services	82,500
Noor Agha Gaznawi Technical Store	300
Noor Hadi Dasminto Plor Nakhi	51
Noor Ironware Company	6,998
Noori Company	530
Obaidullah Ayazi Transportation	82,000
Omid Nawid Ahmadi Company Ltd.	79,344
Pak Qismat Shirkat	3,077
ProMIS Energy	4,736,173

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

<u>Vendor</u>	<u>Questioned Costs</u>
Purza Froshi Haji Saddique	\$ 134
Qlandri Cement Company	70
Rahim Gardezi Company Ltd.	174,218
Romal Sailab Road and Construction	10,000
Sarak Khumar	680
Shafiq Furniture	110
Sheikh Bradran	785
Shirkat Kher Muhammad Zada	837
Shirkat Waheed Ahmedi	208,047
Soft Net International Ltd.	600
United Thress Stars	4,760
Ustad Dawood Rang Froshi	179
Venco Imtiaz Contracting Company	800
Zabu Ullah Rang Froshi	<u>1,229</u>
Lack of competitive bidding	7,278,378
Pro-rated profit (21.9%)	<u>1,593,965</u>
Total questioned costs	<u>\$8,872,343</u>

The pro-rated profit percentage was determined based upon the 77 Construction's reported profit for the period January 1, 2015 through December 31, 2015 (\$2,432,447) divided by the total costs incurred, including profit, by 77 Construction for the period January 1, 2015 through December 31, 2015 (\$11,119,799).

Recommendation:

- (1) We recommend that DABS either provide documentation to USAID that vendors and subcontractors used by 77 Construction were competitively procured, or return \$8,872,343 to USAID for costs for which competitive procurement efforts could not be provided.
- (2) We recommend that DABS establish procedures in order to monitor its subcontractors to ensure that vendors and contractors used by its subcontractors are competitively procured as required by the Islamic Republic of Afghanistan.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

Finding Number 2017-4: Bank Reconciliations Not Provided

Nature of Finding:

Internal control – material weakness

Condition:

DABS did not prepare bank reconciliations for its bank account. It indicated that the accounts are reconciled by the Afghan Ministry of Finance (“MoF”) and provided a document from the MoF as support. Upon translation, the document provided was an expenditure report for eleven months that was used in the development of the budget for 2016 and not a bank reconciliation. Additionally, no bank reconciliations were provided for GFA.

Criteria:

Implementation Letter No. IL-56, Section G.8, *Financial Reports and Audits*, states, in part:

“...The Grantee shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show, without limitation, all costs incurred directly by the Grantee under the Agreement, the receipt and use of goods and services acquired by the Grantee under the Agreement...The Grantee shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States...”

Cause:

DABS indicated that bank reconciliations were prepared by the MoF and thus did not prepare reconciliations of its bank accounts. DABS was unable to provide proof that the reconciliations were prepared by the MoF.

Effect:

Failure to perform timely bank reconciliations can result in an undetected loss of cash or a misuse of funds.

Questioned Costs:

No costs were questioned as a result of this finding.

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Detailed Audit Findings

(Continued)

Recommendation:

- (1) We recommend that DABS immediately begin preparing monthly bank reconciliations to ensure that cash is being handled properly.
- (2) We recommend that DABS prepare a policy and procedure over its cash handling function that includes the preparation of monthly bank reconciliations.



د افغانستان برشنا شرکت
د مالی او اداري ریاست
د مالی او حسابي آمریت
د پرمختیائی پروژو د حوالو مدیریت



June 03, 2017

Mr. Marcus D. Davis,
Mayer Haffman MacCann P. C.,
2301 Dupont Drive, Suite 200

Subject: Implementation Letter (IL) No. 56: Financial Audit of Cost Incurred under Implementation Letter No. IL-56. Installatoion of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant. For the Period January 1, 2015 through December 31, 2015

References: Implementation Letter (IL) No. 56 for Kajakai

Dear Mr. Davis,

We have received your letter mailed to us on May 18, 2017 and noted the audit findings related to IL No.56 for Kajaki.

In replying to the audit observations, we have provided adequate documents to substantiate the genuineness, reasonability, adherence to agreed processes and allocability. We believe that in most of the conclusions the circumstances of the case has not been considered and the cost has been questioned without going into the substance of the transaction. Detailed reply to the audit observations along with justification and annexure with supporting documents were provided during the course of audit process.

Our Response to the Basis for Qualified Opinion

We are in disagreement with the auditors opinion questioning several transaction totaling USD-25,801,178 due to missing or insuffeciant documents provided, or lack of evidence of competative bidding. Per the terms and conditions set forth in the IL-56 and the ultimate contracts documents signed with the contractors, DABS has to accept invoice of the contractor along with the supporting documents (for cost incurred under the 're-imburseable' catagory) all of the files have been presented to the auditors to their complete satisfaction during the course of audit process. Now that, the consulatant—GFA—was not available during the audit process (due to their pre-mature cease of operation and close of their offices in country) to respond to the auditors as part of their contractual obligatoins, is different issue, whereas adequet documents to support the said cost is available at DABS and have been presneted to the auditors.

Please find below our response to the items mentioned in your letter cross reference to the audit responses of the findings in the audit report.

DABS response to 'Detailed Audit Finding for the Period January 01, 2015 through December 31, 2015'

Finding Number 2017-1: Missing or Insufficient Documentation Provided for GFA Consulting.

Personnel:

In response to point 1, 2 and 3 (as stated above), the consultant—GFA— was not available during the audit process (due to their pre-mature cease of operation and close of their offices in country) to respond to the auditors as part of their contractual obligations.

(1) In compliance of GCC 6.2 (f) signed contract 'payment for periods less than one month' (one day being equivalent to 1/30th of a month) DABS has calculated the 22 days salary of 'Chief of Party—COP' (USD 26,220/30x22=19,223) whereas the auditor's site team may have incorrectly divided the same figure by 31 which leads to a difference of USD-620, being incorrectly considered as overpayment.

(2) the month of October-15 has been worked by two COP's (transition period between the two), where as COP 1 has worked for 23 days and COP 2 has worked for the rest of 8 days, while the invoice being raised for the full month supported by time sheets for both individuals (copy of invoice plus the time sheets attached). As the COP services has been provided for the full month by the consultant therefore no overpayment exist.

To the extent allowed by the contract signed by the parties, DABS has monitored the implementation of the contract, where as GFA did not inform DABS about the cease of their operation nor they handed over any documents to the client as part of their contractual obligations.

Direct Costs:

Correctly stated by the auditors "DABS responded to all queries for documentation from GFA and provided all documentation it had related GFA, as GFA cease operation in May 2016 and was not available to respond directly to audit request"

DABS Response Recommendations:

- (1) There has not been any over payment hence no money is required to be returned.
- (2) All the supporting documents including evidence of payment, time sheets and invoices required by the signed contract have been provided to the USAID prior to the disbursement / allowance / approval of any invoice that support the cost incurred by the consultant. The consultant—as part of the contractual obligations—must have been available on the site to facilitate the audit process on the consultant premises.
- (3) Per the IL-56 and the signed contract, DABS has thoroughly monitored the execution of the signed contract and cost incurred thereunder.

Finding Number 2017-2: Lack of Evidence of Competitive Bidding by 77 Construction Corps USA

This is a unit cost based fixed price contract having goods and works portion and per payment terms of the signed contract DABS is obliged to pay the contractor per the invoices raised by contractor verified by the Owner's Engineer. Adequate level of internal control is in place for the said process, whereas the contractor—as part of their contractual obligation—has to present evidence to the audit at their premises to support the reasonability, allocability and allow ability of the cost incurred.

[Begin 77 Construction Corps Response

77 Construction USA Corp's Response to Audit Report Findings

Finding Number	Nature of Finding	Matter	Questioned Costs
2017-2	Internal control – material weakness Compliance	Lack of evidence of competitive bidding by 77 Construction	10,597,647

77 Construction USA Corp's Response

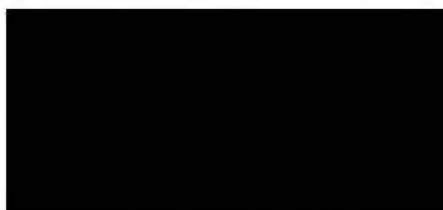
77 USA Corp has submitted the potential suppliers for vetting before hiring them for the project. Only the suppliers which were approved by USAID involved in Kajaki Project. 77 Construction USA Corp has ISO 9001 certificate. The fair market price verifications and evaluations were performed properly and according to 77 Construction USA Corp company policies by the headquarters. A copy of evaluation sheets can be brought to Afghanistan for auditors review.

End 77 Construction Corps Response.]

Finding Number 2017-3: Bank Reconciliation is Not Provided.

On behalf of Granatee (The Government of Islamic Republic of Afghanistan--GoIRA) the Special Account is being opened and maintained by the Ministry of Finance (MoF). The MoF has separate department (Special Accounts Department) that carries out all reconciliations. The report obtained from MoF department is attached. On the sub level DABS carry out reconciliation with the MoF's relevant department. The reconciliation documents being carried out with MoF and the documents has been provided to the auditors. Accounts are fully reconciled as of 31 December, 2016.

DABS has planned to address the recommendations made by bu the Auditor on material weaknesses in internal control and material noncompliance and will provide management decision on each recommendation.



Qudratullah Delawari
Chief Executive Officer (CEO)
Da Afghanistan Breshna Sherkat (DABS)

JV	Source EV	JV Source	Source	Project	Activity	SubFund	Fund Comp	Object	Amount Afs	EX_RATE	Curr	FRGN AMT	SDURN	M16	chk_num	Ch_Curr	ChkAmt
0000429232	0000338205	338205	EXP	830028	83110	3819	38191	22307	75532664.91	66.38	USD	1137882.87	830222940	222	2748740020	USD	1137882.87
0000382492	0000302843	302843	EXP	830028	83110	3819	38191	25205	26933324.99	68.26	USD	394569.66	830189940	189	2748740019	USD	394569.66
0000281728	0000216957	216957	EXP	830028	83110	3819	38191	25205	39514648.12	63.64	USD	620908.9899	830140940	140	2748740013	USD	620908.99
0000019288	0000015296	15296	EXP	830028	83110	3819	38191	22307	61466590.96	57.99	USD	1059951.56	830011940	11	2748740001	USD	1059951.56
0000243904	0000192392	192392	EXP	830028	83110	3819	38191	22307	71949029.38	62.5	USD	1151184.47	830122940	122	2748740011	USD	1151184.47
0000181356	0000145446	145446	EXP	830028	83110	3819	38191	22307	87938550.73	60.67	USD	1449456.91	830092940	92	2748740007	USD	1449456.91
0000381835	0000287187	287187	EXP	830028	83110	3819	38191	22307	77497970.81	67.06	USD	1155651.22	830192940	192	2748740017	USD	1155651.22
0000040954	0000026082	26082	EXP	830028	83110	3819	38191	22307	53942402.95	57.32	USD	941074.72	830018940	18	2748740002	USD	941074.72
0000311080	0000244888	244888	EXP	830028	83110	3819	38191	22307	75156657	64.16	USD	1171394.28	830161940	161	2748740015	USD	1171394.28
0000352524	0000267387	267387	EXP	830028	83110	3819	38191	25205	27365663.98	64.92	USD	421529.02	830182940	182	2748740016	USD	421529.02
0000306300	0000239836	239836	EXP	830028	83110	3819	38191	22307	87296179.41	64.16	USD	1360601.3	830155940	155	2748740014	USD	1360601.3
0000072928	0000052061	52061	EXP	830028	83110	3819	38191	25205	206013257.5	57.84	USD	3561778.31	830045940	45	2748740004	USD	3561778.31
0000107020	0000077472	77472	EXP	830028	83110	3819	38191	22307	62907478.08	57.84	USD	1087612	830060940	60	2748740005	USD	1087612
0000381922	0000287248	287248	EXP	830028	83110	3819	38191	22307	91502683.98	67.06	USD	1364489.77	830194940	194	2748740018	USD	1364489.77
0000220305	0000171472	171472	EXP	830028	83110	3819	38191	25205	167502304	60.32	USD	2776894.96	830110940	110	2748740009	USD	2776894.96
0000202971	0000152901	152901	EXP	830028	83110	3819	38191	25205	53248966.52	60.49	USD	880293.71	830099940	99	2748740008	USD	880293.71
0000061605	0000049612	49612	EXP	830028	83110	3819	38191	22307	80939732.53	57.75	USD	1401553.81	830039940	39	2748740003	USD	1401553.81
0000251901	0000187524	187524	EXP	830028	83110	3819	38191	22307	69791676.22	63.34	USD	1101857.85	830121940	121	2748740012	USD	1101857.85
0000220325	0000171353	171353	EXP	830028	83110	3819	38191	25205	148605830.4	60.32	USD	2463624.51	830109940	109	2748740010	USD	2463624.51
0000134259	0000098007	98007	EXP	830028	83110	3819	38191	22307	65983625.53	59.15	USD	1115530.44	830066940	66	2748740006	USD	1115530.44

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Auditor's Rebuttal to DABS' Responses to Findings

For the Period January 1, 2015 through December 31, 2015

Due to changes in the scope of the audit for decreasing the total expenditures and to shorten the period of performance, it was determined that prior finding number 2017-2, which was a combined finding of internal control and noncompliance to be split into two separate findings. Therefore, the conclusion is that no additional numerical information is added in the report to require DABS' new management response.

DABS disagreed with all findings identified. There were originally three findings in the final report that DABS responded to. Subsequent to DABS' response, Finding Number 2 was split into Finding Numbers 2 and 3. The management response below for Finding 2 refers to Findings 2 and 3 in this report. We have reviewed management's responses and provide the following rebuttals to DABS' disagreements.

Finding Number 2017-1: Missing or Insufficient Documentation Provided for GFA Consulting

DABS disagrees with this finding citing three different reasons as follows. Our rebuttal is included for each reason.

- (1) DABS indicates that we incorrectly calculated a partial month salary. We agree with DABS in how it calculates a partial month salary. The issue here is that DABS claimed a full month salary when it should only have claimed a partial month. As such, this portion of our finding and recommendation remains unchanged.
- (2) DABS indicates that the month of October 2015 was filled with two COPs, and their salary combined would equal one COP salary for the full month. Based upon the documentation provided, there was only one COP for 23 days that month, yet DABS charged time for 31 days. No documentation was provided to indicate that a second COP was charged. As such, this portion of our finding and recommendation remains unchanged.
- (3) DABS indicated that it provided all information that it had related to GFA costs to us for audit. DABS further acknowledged that GFA ceased operations in May 2016, but failed to inform DABS that GFA was ceasing operations, and also did not provide DABS with all documents related to the project as required by their contract. As stated in the finding, DABS did provide the documentation it had in its possession. However, key documents in order to fully support the costs incurred were not provided. As such, this portion of our finding and recommendation remains unchanged.

Finding Number 2017-2: Lack of Evidence of Competitive Bidding by 77 Construction

DABS disagrees with this finding, indicating that 77 Construction vetted all potential suppliers and obtained approval from USAID. DABS further indicates that evidence of fair market price verifications

DA AFGHANISTAN BRESHNA SHERKAT

Financial Audit of Costs Incurred
Under Implementation Letter No. IL-56
Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant

Auditor's Rebuttal to DABS' Responses to Findings

(Continued)

and evaluations were performed and could be provided for review. During the course of fieldwork, DABS and 77 Construction were provided more than adequate time to gather the requested documents and provide them for our review. The documents were never provided. As such, our finding and recommendation remains unchanged.

Finding Number 2017-3: Bank Reconciliations Not Provided

DABS disagrees with this finding, indicating that the bank reconciliations are prepared by the Afghan Ministry of Finance and were provided to the auditors. DABS did provide a document that they stated to be their bank reconciliations. However, upon translation of the documents to English, it was noted that the documents provided was a memo discussing budget development for fiscal year 2016. Actual bank reconciliations were never provided. As such, our finding and recommendation remains unchanged.

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202