

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 19-15 Financial Audit

USAID's Sheberghan Gas Development Project: Audit of Costs Incurred by the Afghan Ministry of Mines and Petroleum



JANUARY
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On May 15, 2012, the U.S. Agency for International Development (USAID) and the Afghan government signed Implementation Letter No. 45 to fund the Sheberghan Gas Development Project. According to the letter, USAID would fund up to \$30 million for the project, which was designed to increase the use of Afghanistan's natural resources and generate electric energy for economic and social benefits. The Ministry of Mines and Petroleum (MOMP) was responsible for implementing and making a monetary contribution to the project. USAID modified the letter 17 times, which extended the period of performance from May 30, 2015, through August 31, 2016.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$30 million charged to the letter from May 15, 2012, through August 31, 2016. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in the ministry's internal controls related to the implementation letter; (2) identify and report on instances of material noncompliance with the terms of the implementation letter and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether the ministry has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of the ministry's Special Purpose Financial Statement (SPFS). See Crowe'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 Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2019

USAID's Sheberghan Gas Development Project: Audit of Costs Incurred by the Afghan Ministry of Mines and Petroleum

SIGAR 19-15-FA

WHAT THE AUDIT FOUND

Crowe identified three material weaknesses and four significant deficiencies in the MOMP's internal controls, and seven instances of noncompliance with the terms and conditions of the implementation letter and applicable regulations. For example, during its fieldwork from May through September 2018, Crowe found that the ministry could not provide the required work completion certificates to verify work performed. Crowe contacted USAID to obtain supporting documentation for the certificates, but USAID could not locate them. Eventually, the MOMP provided additional documents just before meeting with Crowe to discuss the audit findings in October 2018. After reviewing the documentation, Crowe determined that the ministry still could not provide one completion certificate, resulting in \$803,171 in questioned costs.

Crowe also found that the MOMP did not perform or provide the required quarterly accounting transactions to USAID, or perform an annual financial audit of the project, as the implementation letter required. Crowe also noted a concern that the ministry reported an \$849,651 disbursement to Turkish Petroleum Corporation, its contractor, as part of its expected contribution as required by the implementation letter. However, the ministry did not provide any records to support the disbursement. There were no questioned costs related to this missing contribution because the disbursement involved the Afghan government's funds. SIGAR notified USAID during an October 2018 meeting that the MOMP could not provide records showing that it paid the contribution.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified \$803,171 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the implementation letter, applicable laws, or regulations.

Category	Ineligible Costs	Unsupported Costs	Total Questioned Costs
Missing Documentation of Work Completion Certificates	\$0	\$803,171	\$803,171
Total Questioned Costs	\$0	\$803,171	\$803,171

Based on its communications with the MOMP, SIGAR, and USAID staff, Crowe did not identify any prior audit or assessment reports that could have a direct and material impact on the SPFS for the Sheberghan Gas Development Project.

Crowe issued a disclaimer of opinion on the SPFS because it could not obtain sufficient evidence to verify and demonstrate the existence of assets.

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, \$803,171 in questioned costs identified in the report.**
- 2. Advise the ministry to address the report's seven internal control findings.**
- 3. Advise the ministry to address the report's seven noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 23, 2019

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by the Afghan Ministry of Mines and Petroleum (MOMP) under U.S. Agency for International Agency (USAID) Implementation Letter No. 45 to support the Sheberghan Gas Development Project. The objective of the letter was to increase the use of Afghanistan's natural resources and generate electric energy for economic and social benefits. Crowe's audit reviewed \$30 million that the ministry charged to the letter from May 15, 2012, through August 31, 2016. Our contract with Crowe 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 the audit, SIGAR recommends that the responsible agreement officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$803,171 in questioned costs identified in the report.**
- 2. Advise the ministry to address the report's seven internal control findings.**
- 3. Advise the ministry to address the report's seven noncompliance findings.**

In addition, during an October 2018 meeting with Crowe, USAID, and the MOMP, we notified USAID that the MOMP could not provide records of payment for \$849,651 disbursed to Turkish Petroleum Corporation, its contractor, as part of its expected contribution as required by the implementation letter. There were no questioned costs related to this missing contribution because the disbursement involved the Afghan government's funds.

The results of Crowe's audit are discussed in detail in the attached report. We reviewed Crowe'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 the ministry's Special Purpose Financial Statement. We also express no opinion on the effectiveness of the ministry's internal control or compliance with the implementation letter, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Crowe 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.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-123)



Ministry of Mines and Petroleum (MoMP)
Government of the Islamic Republic of Afghanistan
Sheberghan Gas Development Project (SGDP)
Special Purpose Financial Statement
For the Period May 15, 2012, through August 31, 2016
(With Independent Auditor's Report Thereon)

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Transmittal Letter

January 7, 2019

To the Minister of Mines and Petroleum
Ministry of Mines and Petroleum,
Kabul, Afghanistan

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of the Ministry of Mines and Petroleum's (MoMP) grant agreement with the United States Agency for International Development (USAID) funding the Sheberghan Gas Development project.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated 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 of MoMP and the Office of the Special Inspector General for Afghanistan Reconstruction provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final responses are incorporated within this report as an appendix.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of MoMP's Sheberghan Gas Development project.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe LLP

Summary

Background

On September 19, 2005, the United States Agency for International Development (“USAID”) awarded Strategic Objective Grant Agreement (SOAG) No. SOAG-306-05-00 for USAID Strategic Objective No. 306.005 to the Government of the Islamic Republic of Afghanistan (“GIRoA”) for the Strategic Objective of a Thriving Economy led by the Private Sector. The USAID issued the award to the GIRoA, which acted through the Ministry of Finance. USAID and the GIRoA agreed to work together on projects funded by the SOAG to achieve the following six results:

1. Accelerated market-led growth in agriculture;
2. Accelerated broad-based, sustainable rural economic development in way that provided new opportunities for the Afghan population to seek livelihoods in the licit economy;
3. Increased incomes through economic growth;
4. Stabilized energy services that are more affordable and accessible;
5. Expanded and improved access to transportation; and
6. Expanded access to water supplies and sanitation.

In furtherance of these objectives, USAID and the GIRoA executed Implementation Letter No. 45 (“IL” or “agreement” or “award”) funding the Sheberghan Gas Development Project (“SGDP”) on May 15, 2012. The IL identified an objective to increase the utilization of indigenous natural resources and generate electric energy for economic and social benefits. This award is an integral part of efforts by multiple agencies to develop a 200-megawatt natural gas-fired electrical plant in the Sheberghan City of Jowzjan Province. The Afghanistan Ministry of Mines and Petroleum (“MoMP” or “the Ministry”) assumed responsibility for implementing the SGDP project. Accordingly, MoMP is identified as the auditee throughout this report.

The IL included an initial Federal funding amount of \$30,000,000 for a period of performance that spanned from May 15, 2012 through May 30, 2015. Pursuant to Section III (d) of the IL, MoMP was expected to contribute up to \$7,000,000, in non-Federal monies for the project as well. Seventeen (17) modifications to the IL were issued that addressed administrative items and extended the period of performance through August 31, 2016. In addition, the modifications, specifically IL No. 45-09, approved the award of a contract to Turkish Petroleum Corporation (TPAO) for the execution of the drilling work for development of the Juma and Bashikurd Gas Fields; the contract value totaled \$36,757,667. The table below summarizes applicable implementation letters that resulted in changes to the grant agreement amounts, dates, or scope:

Implementation Letter No.	Date	Highlights
45-01	May 15, 2012	The initial funding letter that authorized \$30,000,000 in funding for the Period of Performance - May 15, 2012 to May 30, 2015.
45-02	January 17, 2013	Included administrative changes that provided for renumbering of the funding letters.
45-03	January 2, 2013	Added specific requirements for disbursement including sample signatures and example of request for funds letter and other items.
45-04	January 17, 2013	Letter to MoMP noting the satisfaction of the Conditions Precedent to Disbursement.
45-05	January 17, 2013	Authorizing tender offer for ICB procurement of works.
45-06	March 7, 2013	Approval of amendments to ICB procurement of works.
45-07	November 2, 2013	Confirmation of fulfillment of conditions for subsequent disbursements after the initial.

Implementation Letter No.	Date	Highlights
45-08	June 15, 2013	Approval of revised tender issue.
45-09	July 28, 2013	Approved MoMP's award of the contract to Turkish Petroleum \$36,757,677.
45-10	October 5, 2013	Approval of tender for QCBS Petroleum Engineering Consultancy Services to Monitor Well Drilling in the Bashikurd/Juma Gas Field.
45-13	January 8, 2015	Extension of Period of Performance to August 15, 2015.
45-14	January 4, 2015	USAID wrote to express concern that the MoMP has adequate safeguards in place to avoid potential double payments to TPAO. The letter requires MoMP to monitor costs charged to Phase 1 (well drilling) and confirm that amounts paid to TPAO are not recovered under separate work awarded.
45-15	April 26, 2015	Extension of Period of Performance to August 31, 2016.
45-17	June 22, 2016	Offer for technical report data regarding the quantity of reserves.

The audit's scope includes activity within the period May 15, 2012 through August 31, 2016. For the period under audit and as shown on the Special Purpose Financial Statement, MoMP reported \$30,000,000 in total revenue as having been received from USAID and disbursed. As discussed above, MoMP used one major contractor, Turkish Petroleum Corporation, to help execute the scope of work. MoMP asserted that all amounts received from USAID and presented on the SPFS were the actual payments made to Turkish Petroleum Corporation.

Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of MoMP's SGDP project for the period from May 15, 2012 through August 31, 2016.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for the award presents fairly, in all material respects, revenues earned, 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.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of MoMP's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether MoMP complied, in all material respects, with the award's requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether MoMP has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of the audit included the period May 15, 2012 through August 31, 2016. The audit was limited to those matters and procedures pertinent to the agreement that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs and Activities;
- Procurement; and
- Reporting.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee’s internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, Crowe performed audit procedures on the transactions reported in the financial records underlying the SPFS and tested to determine if the transactions were recorded in accordance with the cash basis of accounting; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of available policies and procedures to provide Crowe with an understanding of the system of internal control established by MoMP during the period of performance. Crowe noted that the availability of policies and procedures in effect during the period of performance was limited due to turnover in the Ministry and failure to retain records, as communicated by the MoMP personnel. To the extent documented policies and procedures were unavailable, Crowe conducted interviews with MoMP personnel to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws, rules, regulations, and the terms and conditions of the IL. Crowe was unable to corroborate internal controls identified by the auditee or conduct testing of select key controls due to insufficient supporting documentation. As a result, 100% of the costs incurred on the SPFS were tested. Where a control could be identified and supporting documentation was available, Crowe performed limited testing.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee’s compliance with requirements applicable to the delivery order. Crowe identified – through review and evaluation of the grant agreement executed by and between MoMP and the USAID, the Federal Acquisition Regulation (“FAR”), and ADS Chapter 350, Grants to Foreign Governments – the criteria against which to test the SPFS and supporting financial records and documentation. Crowe performed a review of 100% of the costs incurred, reviewing the six (6) invoices submitted to the Ministry for payment, the procurement of the subcontract awarded to Turkish Petroleum Corporation, property and equipment dispositions, and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation, when available and provided by the auditee, was subsequently evaluated to assess MoMP’s compliance.

Regarding Audit Objective 4, Crowe inquired of MoMP, USAID staff participating in the audit entrance conference, and SIGAR to understand whether there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we did not identify any prior report audit, review, or assessment reports that could be direct and material to the SPFS or the audit's financial objectives.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified seven findings because they met one or more of the following criteria: (1) significant deficiencies in internal control; (2) material weaknesses in internal control; (3) noncompliance with rules, laws, regulations, or the terms and conditions of the agreement; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued a disclaimer of opinion on the SPFS. The disclaimer resulted from an inability to obtain sufficient, appropriate audit evidence demonstrating that assets constructed using Federal funds exist and are being used for the intended purposes.

While Crowe issued a disclaimer of opinion for the SPFS as a whole, Crowe reported separately on both MoMP's compliance with the applicable laws, rules, regulations, and the terms and conditions of the agreement and the internal controls over financial reporting. Crowe reported a total of seven findings. The findings included three material weaknesses in internal control, four significant deficiencies in internal control, and seven instances of noncompliance. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified during our testing.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to MoMP's financial performance under the implementation letter. Based on Crowe's communications with MoMP, SIGAR, and the USAID staff members participating in the audit entrance conference, no prior audit or assessment reports were identified.

Based on Crowe's procedures, a total of \$803,171 in costs reported on the SPFS were questioned because they were ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited agreement or applicable laws and regulations; or are not related to the award. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs	Cumulative Questioned Costs
2018-01	Missing Documentation of Work Completion Certificates for Invoice Approval	Material Weakness and Noncompliance	\$803,171	\$803,171
2018-02	Advertising of Procurement not in Compliance with Afghan Law	Material Weakness and Noncompliance	None	\$803,171

Finding No.	Finding Name	Classification	Questioned Costs	Cumulative Questioned Costs
2018-03	Required Quarterly Accounting of Transactions Not Performed and Submitted to USAID	Significant Deficiency and Noncompliance	None	\$803,171
2018-04	Required Monthly Bank Reconciliations Not Performed	Significant Deficiency and Noncompliance	None	\$803,171
2018-05	Failure to Appoint an Inspection Committee or a Monitoring and Evaluation Committee	Significant Deficiency and Noncompliance	None	\$803,171
2018-06	Annual Audit of Sheberghan Gas Development Project Not Performed	Material Weakness and Noncompliance	None	\$803,171
2018-07	Missing Documentation for Disbursement of \$849,691 from MoMP Funds to Turkish Petroleum Corporation	Significant Deficiency and Noncompliance	None	\$803,171
Total Questioned Costs:				\$803,171

Summary of Management Comments

The Ministry concurred with findings 2018-02, 2018-04, 2018-05, and 2018-06 and the accompanying recommendations.

Regarding finding 2018-01, management disagreed with the finding due to the Ministry's position that physical inspection was not the appropriate audit procedure to conduct in order to validate the existence of the rehabilitated wells. In addition, the Ministry considered the documentation provided previously and in conjunction with management's responses to adequately support and demonstrate that the costs were incurred for the project.

Last, with respect to findings 2018-03 and 2018-07, the Ministry partially agreed with the findings. The Ministry agreed with the facts; however, MoMP noted that it believed the applicable reports were submitted to USAID and payments were made to Turkish Petroleum although the documentation was not provided to Crowe for audit.

References to Appendices

The auditor's reports are supplemented by two appendices, **Appendix A**, which contains management's responses to the audit findings and **Appendix B**, which contains the auditor's rebuttal to management's comments.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Minister of Mines and Petroleum
Ministry of Mines and Petroleum
Kabul, Afghanistan

To the 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 Special Purpose Financial Statement ("the Statement") of the Ministry of Mines and Petroleum ("MoMP"), and related notes to the Statement, with respect to Implementation Letter 45 issued under Strategic Objective Grant Agreement (SOAG) No. SOAG-306-05-00, for the period May 15, 2012, through August 31, 2016.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matters 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.

Basis for Disclaimer of Opinion

MoMP reportedly incurred \$29,403,171 in costs for the construction of various assets, which are material to the Statement. Due to security restrictions as communicated to us by both MoMP and the Afghanistan Police, we were unable to physically verify the existence of the assets in-country. Accordingly, we were unable to obtain sufficient, appropriate audit evidence to conclude that the amounts presented on the Statement are free of material misstatement.

In the event we were able to verify the existence of the inventory of assets, Crowe would have issued an unmodified opinion on the Statement.

(Continued)

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Statement.

Basis of Presentation and Accounting

We draw attention to Note 1 and Note 2 to the Statement, which describe the basis of presentation and the basis of accounting. The Statement was prepared by MoMP in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures permitted under the terms of the Implementation Letter 45 on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the implementation letter referred to above.

Restriction on Use

This report is intended for the information of the Ministry of Mines and Petroleum, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated December 22, 2018, on our consideration of MoMP's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 MoMP's internal control over financial reporting and compliance.

Crowe LLP
Crowe LLP

Washington, D.C.
December 22, 2018

Ministry of Mines and Petroleum
Special Purpose Financial Statement
Strategic Objective Grant Agreement 306-05-00, Funding Letter 45
For the Period May 15, 2012, through August 31, 2016

			<u>Questioned Costs</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
Invoiced Amounts (Funds Received from USAID):	\$ 30,000,000	\$ 30,000,000			
<i>Costs Incurred by Budgetary Account</i>					
<i>Mobilization: to include improvement of road and necessary for contractor's equipment (trucks, rigs, people) to reach well sites, also to include necessary security, sites and facilities</i>	\$ 1,400,000	\$ 1,400,000			
<i>Rehabilitation of Bashikod Well No.9</i>	\$ 2,591,070	-			
<i>Rehabilitation of Bashikurd Well No.3</i>	\$ 12,030,887	\$ 10,286,694			
<i>New Well Drilling and Completion of Well No.2A in Juma</i>	\$ 18,313,307	\$ 18,313,307			
<i>Wire Line Logging and Testing (All Three (3) Wells)</i>	\$ 1,422,413	\$ 803,171		\$ 803,171	A
<i>Demobilization</i>	\$ 1,000,000	\$ 46,480			
Total Costs Incurred (Payments Made from USAID Funds):	<u>\$ 30,000,000</u>	<u>\$ 30,000,000</u>			
<i>Balance</i>		\$ -			
Grantee Contribution:	<u>\$ 7,500,000</u>	<u>\$ 849,651</u>		\$ 849,651	B

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

Ministry of Mines and Petroleum
Notes to the Special Purpose Financial Statement
For the Period May 15, 2012, through August 31, 2016

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Implementation Letter 45 for the Sheberghan Gas Development Project ("SGDP") for the period May 15, 2012 through August 31, 2016. Because the Statement presents only a selected portion of the operations of the Ministry of Mines and Petroleum, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Ministry of Mines and Petroleum. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Implementation Letter. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the cash basis of accounting. Such expenditures are recognized following the terms and conditions of Implementation Letter 45, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were not required.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which MoMP is entitled to receive from the Ministry of Finance ("MoF")) as per the and the USAID grant for payment to the Turkish Petroleum Corporation for allowable, eligible costs incurred under the contract during the period of performance.

Note 5. Revenue Recognition

Revenue was recognized based on the allocated budget under the Government of the Islamic Republic of Afghanistan's ("GoIRA") annual budget for SGDP project during the GIRoA fiscal year for payment to the Turkish Petroleum Corporation.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved contract between MoMP and the Turkish Petroleum Corporation as approved by USAID in IL 45-09. The full value of the USAID award was passed through to the Turkish Petroleum Corporation and, therefore, the budget reflects the final contract between MoMP and Turkish Petroleum Corporation.

(Continued)

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. The balance in the actual column represent the unspent amount budgeted by the Ministry of Finance in annual budget.

Note 8. Currency

All amounts presented are shown in U.S. dollars.

Note 9. Program Status

The Sheberghan Gas Development Project is complete.

Note 10. Reconciliation to Invoiced Amounts

The amount presented on the SPFS is the actual payments made to TPAO, which differ from the amount invoiced by TPAO due to following deductions:

- USD 3,416,660 deducted as delayed damages (10% of the contract)
- USD 470,495 deducted for environmental impact.

MoMP have also purchased equipment worth USD 1,232,217 and stored in Afghan Gas warehouse.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the period May 15, 2012, through August 31, 2016, the period covered by the Statement. Management has performed their analysis through December 22, 2018.

**NOTES TO THE QUESTIONED COSTS PRESENTED ON THE
SPECIAL PURPOSE FINANCIAL STATEMENT¹**

Note A. Missing Documentation of Work Completion Certificates for Invoice Approval

Finding 2018-01 questioned \$803,171 due to MoMP's inability to document work completion certificates for invoice approval.

Note B. Missing Documentation for Disbursement of \$849,651 from MoMP Funds to Turkish Petroleum Corporation

Finding 2018-07 would have resulted in questioned costs of \$849,651 due to missing documentation for the disbursement of funds. However, these funds were not expended from U.S. dollars and were not otherwise identified as a mandatory cost share under the IL. Therefore, no Federal funds were questioned.

¹ Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Minister of Mines and Petroleum
Ministry of Mines and Petroleum,
Kabul, Afghanistan

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

We were engaged to audit, 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 ("the Statement") of Ministry of Mines and Petroleum ("MoMP"), and related notes to the Statement, with respect to the Implementation Letter 45 issued under the Strategic Objective Grant Agreement (SOAG) No. SOAG-306-05-00 for the period May 15, 2012, through August 31, 2016. We have issued our report thereon dated December 22, 2018, within which we have disclaimed an opinion because, in the absence of verification of the existence of the assets or documentation confirming that the work had been completed, we were unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

Internal Control over Financial Reporting

MoMP's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period May 15, 2012, through August 31, 2016, we considered MoMP's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of MoMP's internal control. Accordingly, we do not express an opinion on the effectiveness of MoMP's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

(Continued)

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-01, 2018-02, and 2018-06 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-03, 2018-04, 2018-05, and 2018-07 to be significant deficiencies.

We noted certain matters that we reported to MoMP's management in a separate letter dated December 22, 2018.

Ministry of Mines and Petroleum's Response to the Findings

MoMP's response to the findings was not subject 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's 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.

Restriction on Use

This report is intended for the information of Ministry of Mines and Petroleum, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. 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.

Crowe LLP

Crowe LLP

Washington, D.C.
December 22, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Minister of Mines and Petroleum
Ministry of Mines & Petroleum,
Kabul, Afghanistan

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

We were engaged to audit, 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 ("the Statement") of Ministry of Mines and Petroleum ("MoMP"), and related notes to the Statement, with respect to the Implementation Letter 45 issued under the Strategic Objective Grant Agreement (SOAG) No. SOAG-306-05-00 for the period May 15, 2012, through August 31, 2016. We have issued our report thereon dated December 22, 2018, within which we have disclaimed an opinion because, in the absence of verification of the existence of the assets or documentation confirming that the work had been completed, we were unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the award is the responsibility of the management of the Ministry of Mines and Petroleum.

Compliance and Other Matters

In connection with our engagement to audit the Statement of MoMP, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 2018-01, 2018-02, 2018-03, 2018-04, 2018-05, 2018-06, and 2018-07.

Ministry of Mines and Petroleum's Response to the Findings

MoMP's response to the findings 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.

(Continued)

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 compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Ministry of Mines and Petroleum, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. 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.

Crowe LLP

Crowe LLP

Washington, D.C.
December 22, 2018

SCHEDULE I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Missing Documentation of Work Completion Certificates for Invoice Approval

Material Weakness and Noncompliance

Condition: MoMP charged \$803,171 of its \$12,489,865 in costs to the SGDP project for work performed by Turkish Petroleum Corporation without written verification from both MoMP and the contractor specifying that the applicable payment milestone was completed, as required. MoMP communicated that completion certifications were used by both the agency and its contractor to verify that each milestone was completed and goods or services had been provided. To test whether the work was completed and accepted by MoMP, we requested copies of completion certificates provided by Turkish Petroleum Corporation to MoMP in support of the payment milestones. We further requested copies of the MoMP local engineer's completion certificates that served as written verification of MoMP's acceptance of the services. Of the six invoices tested, neither the Turkish Petroleum Corporation's completion certificates nor the local engineer's completion certificates were provided for one of the six invoices. Last, we attempted to visit the work sites to verify the existence, maintenance, and ongoing use of the completed wells associated with the tested invoices. However, both MoMP and the Afghanistan Police indicated that – due to the severity of security concerns in the applicable areas – access to the work sites was not feasible. Accordingly, the invoice did not satisfy each requirement for payment. In the absence of adequate supporting documentation to support that the work was completed, delivered, and accepted, the \$803,171 in costs associated with the invoice is in question.

Per discussion with MoMP, the Ministry experienced significant turnover between the time the work was completed and the audit commenced. During that time, a procedure to retain all required documentation was not implemented. Understanding the challenges encountered by MoMP due to turnover in staff, Crowe contacted USAID to obtain additional supporting documentation to the extent such documentation is available. USAID was also unable to provide the Turkish Petroleum Corporation completion certificates. Subsequent to fieldwork, MoMP located all but two of the missing completion certificates.

Invoice Number	Amount (US\$)	Turkish Petroleum Completion Certificates	MoMP Local Completion Certificates	Amount (US\$)
M150623001	1,400,000	Yes	Yes	1,400,000
M151111001	6,015,444	Yes	Yes	6,015,444
M161108001	4,271,250	Yes	Yes	4,271,250
M161108001	803,171	No	No	803,171
TOTAL				\$12,489,865

Criteria: Implementation Letter 45-01, Section X, "Methods of Disbursement of USAID funds for SGDP Under this IL," states that "[e]ach disbursement shall be based upon submission by the Grantee of a copy of an invoice from a Grantee contractor or supplier of a goods or services furnished in connection with the rehabilitation or construction works under Phases I and II of SGDP and written verification that the goods or services specified in the invoice were delivered and accepted by the Grantee."

According to the Payment Milestone requirements detailed in the Invoice Payment Process instructions provided to the Ministry of Mines and Petroleum (MoMP) by the United States Agency for International Development (USAID), the "Ministry shall confirm completion of a payment milestone (in writing). The Contractor will also confirm completion of a payment milestone."

(Continued)

Questioned Costs: \$803,171

Effect: The United States Government may have been charged and paid for costs that were not incurred for the SGDP project and/or for work that may have not been completed.

Cause: The Ministry did not have procedures in place to maintain adequate documentation to support payments made to its contractor.

Recommendation: We recommend that MoMP:

1. Either provide the work completion certificates for the invoice in question as well as current evidence of existence and use of the wells or otherwise reimburse the United States Government \$803,171;
2. Implement procedures and train personnel responsible for implementing projects funded by the United States Government regarding records retention requirements.

(Continued)

Finding 2018-02: Advertising of Procurement not in Compliance with Afghan Law

Material Weakness and Noncompliance

Condition: MoMP conducted a procurement that resulted in awarding a contract valued at \$36,757,766 to Turkish Petroleum Corporation. Based on our review of the procurement documentation provided for audit and discussions with MoMP, MoMP did not advertise or otherwise publicize the tendering proceeding, an invitation to pre-qualify, or a notice of a restricted tender through either an English newspaper or other mass media channel. Rather, tendering was only made through a local language newspaper, which fails to comply with the Procurement Law of Afghanistan.

Criteria: Section V, “SGDP Method of Implementation,” of the Implementation Letter states, “The rehabilitation and construction works for Phases I and II shall be undertaken by the Grantee, represented by MoMP, in accordance with the Agreement, the terms and conditions of the IL, and through competitively solicited and awarded contracts using full and open competition, and observing full compliance with the Grantee’s procurement laws, regulations, policy and procedures.”

Article 27 of the Procurement Law of Afghanistan² 2008 states that, “announcement of a tendering proceeding, an invitation to pre-qualify, or a notice of a restricted tender, shall be published in the mass media, and in the case of international tendering, published in the English language in media of wider international circulation.”

Questioned Costs: None

Effect: The procurement process was not carried out in accordance with Afghan Procurement law allowing for equal opportunity to bid, which could limit the number of contractors bidding on a project.

Cause: MoMP did not have adequate policies or procedures in place to ensure the procurement process was conducted in accordance with the Procurement Law of Afghanistan.

Recommendation: We recommend that MoMP develop policies and procedures for the procurement process to ensure compliance with the Procurement Law of Afghanistan. We further recommend that MoMP develop and deliver training to the appropriate personnel regarding the policies and procedures as well as the requirements of the Procurement Law of Afghanistan.

² The Procurement Law of Afghanistan is the Government of the Islamic Republic of Afghanistan’s (the Grantee) body of procurement laws as referenced in Section V.

Finding 2018-03: Required Quarterly Accounting of Transactions Not Performed and Submitted to USAID

Significant Deficiency and Noncompliance

Condition: Per review of the documentation provided for audit and discussions with MoMP, MoMP neither prepared nor provided to USAID a quarterly accounting of all transactions and activities applicable to the Special U.S. Dollar Account, as required by the Implementation Letter.

Criteria: Attachment 2, Section II(i) of the Implementation Letter, states that on a quarterly basis, a full accounting of all transactions and activities of the Special U.S. Dollar Account, including a complete copy of each monthly bank statement, must be furnished to USAID.

Questioned Costs: None

Effect: USAID may not receive timely and complete information regarding the SGDP project, which may inhibit USAID's ability to monitor the project at a level the U.S. Government considers reasonable and necessary.

Cause: MoMP's management did not exercise appropriate oversight of the SGDP project, as they did not have a policy in place to monitor reporting.

Recommendation: We recommend that MoMP:

1. Develop, document, and implement a policy that mandates senior management's periodic monitoring of projects to ensure that applicable project managers are executing required reporting, if and as required; and
2. Provide to USAID a copy of all bank statements and a detailed ledger of all transactions associated with the Special U.S. Dollar Account to ensure that USAID has the opportunity to conduct any additional review and oversight that the agency may deem necessary.

(Continued)

Finding 2018-04: Required Monthly Bank Reconciliations Not Performed

Significant Deficiency and Noncompliance

Condition: The Ministry did not perform a monthly reconciliation of the transactions that occurred during the period to the bank statements. In addition, a general ledger was not maintained to which the Ministry could reconcile the amounts to a monthly bank statement.

Criteria: According to section 10.4 of the Ministry's Accounting Manual, the Ministry is required "to reconcile bank statement on monthly basis, using the T-8 form. Any discrepancies requiring correction in General Ledger are to be processed using M-33 form for Journal Vouchers."

Questioned Costs: None

Effect: Without a reconciliation of bank balances to the general ledger accounts potential misstatements in financial records could occur and not be detected on a timely basis.

Cause: MoMP did not follow its own procedures due to insufficient training and staff turnover.

Recommendation: We recommend the Ministry properly train its staff to follow the procedures that are in place over bank reconciliations.

(Continued)

Finding 2018-05: Failure to Appoint an Inspection Committee or Monitoring and Evaluation Committee

Significant Deficiency and Noncompliance

Condition: During the course of our audit, we requested documentation to demonstrate that MoMP appointed both an Inspection Committee and Monitoring and Evaluation (“M&E”) Committee as required by the Procurement Law of Afghanistan and the Implementation Letter, respectively.

Criteria: Article 85 of the Afghanistan Procurement Law states that, “The entity may appoint an Inspection Committee for the purpose of assuring quantitative and qualitative procurement performance.”

Article 86 of the Afghanistan Procurement Law proceeds to state, “The Inspection Committee shall document the receipt and acceptance or rejection of goods and shall provide a copy of the receipt voucher both to the contractor, as notification of acceptance or rejection of the goods, and to the warehouse keeper.”

Attachment 2, Section I(c)(i), “Establishment of a Monitoring and Evaluation Committee for SGDP within MoMP,” within the Implementation Letter states:

Within 90 days of the date of this IL, evidence that the Grantee has established a Monitoring and Evaluation (M&E) Committee for SDGP with MoMP. The Purpose of the M&E Committee is to evaluate and monitor achievements of SDGP operations; collecting and analyzing performance information to track progress toward planned results; using performance information and evaluations to make informed decisions about SGDP including but not limited to, communicating results achieved, or not attained, to advance organizational learning.

Questioned Costs: None

Effect: In the absence of an Inspection Committee and the M&E Committee, evaluation of goods received for use on the SGDP project and overall monitoring and evaluation of the project may either not occur or may be inadequately executed thus exposing the project to performance and financial risk.

Cause: MoMP did not design and implement a sufficient project plan to ensure that each required component of the Afghanistan Procurement Law and the Implementation Letter were understood and addressed. Further, MoMP’s management did not exercise adequate oversight of the SGDP project.

Recommendation: We recommend that MoMP:

1. Develop, document, and implement a project management policy or procedure that may be used to ensure that requirements specified in the Afghanistan Procurement Law and Implementation Letters (or other similar agreements with non-Afghanistan funders) are known and accounted for during project setup and are ultimately complied with; and
2. Develop, document, and implement a policy that mandates senior management’s periodic monitoring of projects to ensure that applicable project managers (or other individuals with responsibility for project implementation) are executing required tasks.

Finding 2018-06: Annual Audit of the Sheberghan Gas Development Project Not Performed

Material Weakness and Noncompliance

Condition: The Ministry did not perform an annual financial audit of the Sheberghan Gas Development Project as required by the Implementation Letter. Crowe requested that MoMP personnel produce evidence that annual audits of the SGDP project were conducted by either the Supreme Audit Institution or an independent auditor as permitted by the applicable USAID audit guidelines. MoMP was unable to provide evidence that the audits were conducted. Further, MoMP did not have policies or procedures in place to ensure that audits would be conducted as required.

Criteria: Section XV, “Financial Reports and Audits,” of the Implementation Letter states that, “The Grantee shall ensure an annual financial audit of SGDP. With USAID approval, the Grantee will use its Supreme Audit Institution or select an independent auditor in accordance with the ‘Guidelines for Financial Audits Contracted by Foreign Recipients (‘Guidelines’)’ issued by the USAID Inspector General for each financial audit.”

Section XV also 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.”

Questioned Costs: None

Effect: Failure to have annual audits conducted increases the likelihood that deficiencies in internal control will not be detected and corrected timely. Further, the risk that MoMP will not detect instances of noncompliance and/or misappropriations of federal funds is increased.

Cause: MoMP did not have a policy or procedure in place to ensure that an annual audit was conducted by an independent auditor. In addition, MoMP did not have a documented record retention policy in place during the period of performance.

Recommendation: We recommend that MoMP:

1. Develop, document, and implement a document retention policy to ensure retention of records for the period required by law, rules, regulations, and the terms and conditions of agreements, as and if applicable; and
2. Develop, document, and implement a policy or procedure that mandates senior management’s periodic review of projects to ensure that applicable project managers (or otherwise with responsibility for project implementation) are engaging auditors, if and as required.

Finding 2018-07: Missing Documentation for Disbursement of \$849,651 from MoMP Funds to Turkish Petroleum Corporation

Significant Deficiency and Noncompliance

Condition: MoMP reported a disbursement of \$849,651 to the Turkish Petroleum Corporation. The amount was asserted to reflect a portion of MoMP's expected grantee contribution. We noted no exceptions with respect to MoMP's ability to support the disbursement of \$30,000,000 in Federal funds; however, no records were provided to demonstrate that \$849,651 in GIRA cash was disbursed to the Turkish Petroleum Corporation.

Criteria: Section III (D), "The Grantee's Expected Contribution," of the Implementation Letter states that the Grantee's contribution to SGDP includes, but is not limited to, a contribution of up to \$7,000,000 for contingencies associated with Phase I of the SGDP and contracting for goods and services required to implement Phases I and II of the SGDP.

Section 3.2, "Grantee Contribution, of the SOAG under which the IL was issued states, "The Grantee's Total Estimated Planned Contribution to the Objective will not be less than the equivalent of U.S. \$262,900,000, including in-kind contributions..."

Section XV, "Financial Reports and Audits," of the Implementation Letter states that, "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."

Questioned Costs: None. Whereas the minimum required grantee contribution level is established at the SOAG level, Federal costs have not been questioned under the IL.³

Effect: In the absence of adequate supporting documentation, MoMP's contributions toward meeting the required grantee contribution amount may be questioned and MoMP may have to incur greater costs than otherwise necessary to meet overall requirement specified in the governing SOAG.

Cause: MoMP did not have adequate policies and procedures in place regarding document retention to ensure that supporting financial records are retained.

Recommendation: We recommend that MoMP implement a document retention policy and develop procedures for the retention of documentation. We further recommend that MoMP conduct a review and evaluation of all financial and non-financial transactions supporting the Grantee Contribution required by the Implementation Letter to ensure that such transactions are adequately supported. The results of the review should be submitted to USAID for review and acceptance.

³ Pursuant to ADS 350.3.5.4(d), the 25 percent grantee contribution required under the Foreign Assistance Act of 1961 must be made during the life of the program as set forth in the agreement, normally the disbursement period.

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS

The Ministry of Mines and Petroleum (“MoMP” or “Management” or “the Ministry”) provided verbal responses to the audit findings during an exit conference held on October 10, 2018. The oral responses were supplemented by written clarifications sought by the auditor. Management’s views regarding the findings are summarized as follows:

Finding 2018-01

Management disagreed with the questioned costs presented within the finding due to MoMP’s position that sufficient, relevant information to support the costs had been provided to Crowe. In addition, MoMP indicated that they provided additional reports and noted that documentation previously provided in support of Bashikurd Well No. 3 supported multiple invoices. Lastly, MoMP challenged the practicality of using physical inspection procedures to verify the existence of the inventory of rehabilitated wells. Management concurred with the recommendations provided by the auditor.

Finding 2018-02

The Ministry concurred with the finding and recommendations, but noted that the advertisement was conducted through a different entity.

Finding 2018-03

The Ministry partially agreed with the finding. MoMP believes that monthly reports were submitted to USAID, but documentation could not be located. The Ministry accepted the auditor’s recommendations.

Finding 2018-04

The Ministry agreed that the bank reconciliations were not provided for audit and accepted the recommendations provided by the auditor.

Finding 2018-05

The Ministry concurred with the finding and accepted the recommendations. MoMP noted, however, that Advanced Engineering Associates International, Inc. (AEAI) was responsible for inspection and monitoring the Sheberghan Gas Development project as per AEA’s contract with USAID. Therefore, MoMP considered the requirement to have been met through AEA’s role and did not consider it necessary for MoMP to provide inspection and monitoring and evaluation services.

Finding 2018-06

MoMP concurred with the finding and recommendations.

Finding 2018-07

MoMP partially agreed with the finding. The Ministry concurred that evidence was not provided to Crowe to support the disbursement. However, the Ministry believes that the Ministry of Finance (MoF) is in possession of the documentation as there was a commitment to pay the costs. MoMP represented that it maintains copies of all the supporting documents within its files; however, the MoF maintains the original files (e.g., invoices and M16 forms).

The Ministry accepted the auditor’s recommendations.

APPENDIX B: AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us" or "auditor") has reviewed management's responses to the draft audit report as well as the additional documentation provided. In consideration of management's views and the supporting documentation, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with an audit finding. In those instances where management did not disagree with an audit finding or did not otherwise provide new information that changes the audit finding(s), we have not included a rebuttal.

Finding 2018-01

The Ministry disagreed with the audit finding due to its belief that adequate supporting documentation had been provided to Crowe to support the incurred costs. Upon review of the additional documentation and information provided by management, we have modified the finding to indicate that the completion certificates produced by Turkish Petroleum and MoMP were provided. The questioned cost amount was modified accordingly.

Crowe understands the Ministry's position with respect to physical inspection not being the ideal or preferred method to verify existence. Whereas the audit is required to be conducted in accordance with Government Auditing Standards, which incorporates by reference the auditing standards generally accepted in the United States of America, we are required to verify the existence of physical inventory when material to the financial statement. Due to the audit being conducted more than one year after the end of the audit period and the wells not being under the custody and control of an independent third party, an alternate procedure that complies with clarity auditing standing 501 was impractical. Due to an inability to independently validate that the assets existed and were being used for eligible purposes, the disclaimer of opinion remains unchanged.

Finding 2018-03

We understand that the Ministry believes that monthly reports were submitted to USAID. However, management did not provide additional auditable documentation to alter the content of the finding. Therefore, the finding remains unchanged.

Finding 2018-07

We understand that the Ministry believes that the \$849,651 disbursement was made to Turkish Petroleum. However, management did not provide additional auditable documentation to alter the content of the finding. Therefore, the finding 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:

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