

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-10 Financial Audit

USAID's Power Transmission Expansion and
Connectivity Project: Audit of Costs Incurred by
Da Afghanistan Breshna Sherkat Results in
Approximately \$16 Million in Questioned Costs



DECEMBER
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 5, 2012, the U.S. Agency for International Development awarded \$698.9 million through an implementation letter to Da Afghanistan Breshna Sherkat (DABS) to support the Power Transmission Expansion and Connectivity project. The purpose of the project was to support the Afghan government in providing affordable, reliable, accessible, and sustainable power, and promote political, economic, and social development. The project was implemented through a partnership between USAID, DABS, and the Afghan Ministry of Finance, and Ministry of Energy, and Water. After three modifications to the letter, the total funding increased to \$830 million, and the period of performance was extended from December 31, 2016, to December 31, 2018.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$186,707,186 in total costs incurred by DABS for funds received under the implementation letter from January 1, 2013, through December 31, 2018. 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 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 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 Crowe's report for the precise audit objectives.

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

December 2020

USAID's Power Transmission Expansion and Connectivity Project: Audit of Costs Incurred by Da Afghanistan Breshna Sherkat Results in Approximately \$16 Million in Questioned Costs

SIGAR 21-10-FA

WHAT SIGAR FOUND

Crowe found five material weaknesses and four significant deficiencies in DABS's internal controls and seven instances of noncompliance with the terms of the letter. Because of these findings, the auditors found \$15,991,544 in total questioned costs. All of the questioned costs were unsupported—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not find any ineligible costs—costs prohibited by the task orders, applicable laws, or regulations.

For example, the auditors determined that DABS did not provide payment forms and other supporting documentation such as vendors' invoices and management's approval of two payments. In another instance, Crowe found that DABS did not have all the invoices needed to support the amounts recorded in its SPFS. Moreover, the auditors found that DABS did not keep procurement documentation such as vendors' qualifications and contract solicitation to support compliance with Afghan procurement law.

Category	Ineligible	Unsupported	Total Questioned Costs
Costs Incurred	\$0	\$15,991,544	\$15,991,544
Total Costs	\$0	\$15,991,544	\$15,991,544

Crowe identified three prior audit reports that were relevant to DABS's activities on this project. One had nine findings that could have a material effect on the SPFS, as well as other financial data that are significant to this audit's objectives. Crowe conducted follow-up procedures and concluded that DABS had taken action on three of the findings, but not on the remaining six, all of which were also identified in this audit.

Crowe issued a disclaimer of opinion on DABS's SPFS because DABS could not provide sufficient audit evidence for the material questioned costs identified during this audit.

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, \$15,991,544 in questioned costs identified in the report.**
- 2. Advise DABS to address the report's nine internal control findings.**
- 3. Advise DABS to address the report's seven noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 4, 2020

Mr. John Barsa
Acting Deputy Administrator, U.S. Agency for International Development

Dr. Tina Dooley-Jones
USAID Mission Director for Afghanistan

SIGAR contracted with Crowe LLP (Crowe) to audit the costs incurred by Da Afghanistan Breshna Sherkat (DABS) on a project funded by the U.S. Agency for International Development (USAID).¹ The agency awarded the national utility company \$830 million to support the Power Transmission Expansion and Connectivity project, designed to help the Afghan government provide affordable, reliable, accessible, and sustainable power for political, economic, and social development. Crowe reviewed \$186,707,186 in total costs charged to the implementation letter from January 1, 2013, through December 31, 2018. 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, \$15,991,544 in questioned costs identified in the report.**
- 2. Advise DABS to address the report's nine internal control findings.**
- 3. Advise DABS to address the report's seven noncompliance findings.**

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 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. 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 are requesting documentation related to the corrective actions taken and target dates for completion for the recommendations. Please provide this information to sigar.pentagon.audits.mbx.recommendation-follow-up@mail.mil within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-159)

¹ The implementation letter number is IL-22-1.



Da Afghanistan Breshna Sherkat (DABS)
Special Purpose Financial Statement
For the Period January 1, 2013, through December 31, 2018
(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

September 25, 2020

To the Board of Directors of Da Afghanistan Breshna Sherkat
Chaman Hozori, Kabul, Afghanistan

To the 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 Da Afghanistan Breshna Sherkat's ("DABS") implementation letters funded by the United States Agency for International Development (USAID).

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 DABS, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID, provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated into this report as an appendix.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of DABS's implementation letters.

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe LLP

Summary

Background

On December 5, 2012, the United States Agency for International Development (“USAID”) awarded the implementation letter number IL-22-1 to Da Afghanistan Breshna Sherkat (“DABS”) to support the Power Transmission Expansion and Connectivity (PTEC) Project. The purpose of the project was to support the Afghan government in expanding and improving Afghanistan’s electric transmission system and to provide affordable, reliable, accessible, and sustainable power for continued political, economic, and social development. The PTEC project was implemented through a broad partnership with the Afghan Ministry of Finance (“MoF”), DABS, the Ministry of Energy and Water (“MEW”), and USAID. PTEC included three components. Components 1 and 2 are funded through on-budget support through DABS, and Component 3 is funded through direct USAID contracts in collaboration with MEW.

The total estimated cost for the PTEC project was \$814 million over the period December 5, 2012, through December 31, 2016. Of this total, an estimated \$698.9 million was allocated to on-budget and \$115.1 million for the off-budget activities. After three modifications to the letter, the funding increased to \$870.4 million, of which \$725 million was on-budget through DABS, \$105 million was on budget through the Asian Development Bank (ADB) managed through Afghanistan Infrastructure Trust Fund (AITF), and \$40.4 million was for off-budget bilateral activities. Subsequently, the period of performance was extended from December 31, 2016 through December 31, 2018. This is not a closeout audit. The modifications are summarized below:

Modification No.	Highlights
IL 22-7	<ul style="list-style-type: none"> Reduced estimated funding for the GIRoA from \$814 million to \$396.4 million; Revised the scope of work for Components 2 and 3, including adding construction of a transmission line from Jalalabad to the Hisarshahi Industrial Park and construction of two substations.
IL 22-27	<ul style="list-style-type: none"> Increased estimated funding for the GIRoA from \$396.4 million to \$815.4 million; and Revised the scope of work for Component 2 to expand construction of the transmission line originating in Arghandi and adding construction of substations in Qarabagh, Muqur, Shah Joy, Qalat, and Kandahar East.
IL 22-43	<ul style="list-style-type: none"> Increased estimated funding for the GIRoA from \$815.4 million to \$870.4 million; Revised the scope of work for Component 1 to include Kandahar Management Support; Revised the scope of work for Component 2 to include SEPS completion; Identified December 31, 2018, as the estimated completion date for the PTEC project; and Distributed the authorized estimated funding of \$870.4 million as follows: \$725 million is on-budget through DABS, \$105 million is on-budget through the Asian Development Bank (ADB) managed Afghanistan Infrastructure Trust Fund (AITF), and \$40.4 million is off-budget bilateral activities.

The audit’s scope included activity within the period January 1, 2013, through December 31, 2018. Within the period under audit, DABS reported \$186,707,186 in costs incurred.

(Continued)

Work Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) engaged Crowe LLP (“Crowe” or “we” or “our”) to conduct a financial audit of DABS’s special purpose financial statement presenting the revenues earned, costs incurred, and balance for implementation letters 22-1, 22-7, 22-27, and 22-43 issued under Strategic Objective Grant Agreement number SOAG-306-05-00 for the period January 1, 2013, through December 31, 2018.

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 DABS’s Special Purpose Financial Statement (“SPFS”) for the implementation letters 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 implementation letters and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of DABS’s internal control related to the implementation letters; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether DABS complied, in all material respects, with the implementation letters’ requirements and applicable laws and regulations, and identify and report on instances of material noncompliance with terms of the implementation letters 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 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 the audit included the period January 1, 2013, through December 31, 2018. The audit was limited to those matters and procedures pertinent to the implementation letters that have a direct and material effect on the 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 Activities;
- Allowable Costs;
- Cash Management;
- Matching and Cost Share;
- Procurement; and
- Reporting.

(Continued)

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 review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded accurately and consistent with the terms and conditions of the award; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the implementation letters 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 policies and procedures to provide Crowe with an understanding of the system of internal control established by DABS during the period of performance. To the extent documented policies and procedures were unavailable, Crowe conducted interviews with management 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 and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 required that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the implementation letters. Crowe identified – through review and evaluation of the grant and implementation letters from USAID to DABS – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including, but not limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected transactions, cash draws, procurements, subrecipients, and reports for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess DABS's compliance.

Regarding Audit Objective 4, Crowe inquired of DABS, SIGAR, and USAID personnel participating in the audit entrance conference to understand whether or not 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 identified three prior reports, one of which contained nine findings and recommendations.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified nine 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 implementation letters; and/or (4) questioned costs resulting from identified instances of noncompliance.

Crowe issued a disclaimer of opinion on the SPFS due to DABS's not having provided sufficient, appropriate audit evidence to permit determinations regarding the allocability and eligibility of a material amount of costs reported on the SPFS. Crowe also noted that, had the aforementioned scope limitation been resolved, a qualified opinion would have been reported due to the presence of material questioned costs and misstatements that could possibly result in a material error on the SPFS.

Crowe also reported on both DABS's internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the implementation letters. We identified and reported five material weakness and four significant deficiencies in internal control. We also identified seven instances of noncompliance. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

(Continued)

In response to the identified instances of noncompliance, Crowe reported \$15,991,544 in questioned costs. SIGAR requires questioned costs be classified as either “ineligible” or “unsupported.” SIGAR defines ineligible costs as those that are explicitly questioned because they are unreasonable, prohibited by the audited implementation letters or applicable laws and regulations, or that are unrelated to the award. Unsupported costs are those that are not supported with adequate documentation or did not have the 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. The summary includes questioned costs reported by Crowe – all of which were classified as unsupported.

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 DABS’s financial performance under the implementation letters. Based on Crowe’s communications with DABS, SIGAR, and USAID, we identified three prior reports – one of which included findings and recommendations that could be direct and material to the audit objectives. The referenced report included nine findings and recommendations. Crowe conducted procedures to ascertain whether adequate corrective action had been taken on prior findings and recommendations. We concluded that DABS has taken corrective action on three findings and the remaining six findings were not corrected and repeated under this audit. See Section II of our report for additional information.

Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2018-01	M16 Forms and Accompanying Supporting Documentation Not Provided	Material Weakness and Noncompliance	\$13,138,959
2018-02	Required Annual Audits Not Completed	Significant Deficiency and Noncompliance	\$ 0
2018-03	Lack of Support to Demonstrate Compliance with the Expected Grantee Contribution	Significant Deficiency and Noncompliance	\$ 0
2018-04	Required Monthly Progress Reports Were Not Provided for Audit	Significant Deficiency and Noncompliance	\$ 0
2018-05	Inadequate Supporting Documentation for Costs Incurred	Material Weakness and Noncompliance	\$ 2,852,585
2018-06	Lack of Independent Monitoring Control	Significant Deficiency and Noncompliance	\$ 0
2018-07	Improperly Presented Special Purpose Financial Statement	Material Weakness	\$ 0
2018-08	Costs Misallocated to Implementation Letter 22-7	Material Weakness	\$ 0
2018-09	Inadequate Documentation Supporting Procurement Activities	Material Weakness and Noncompliance	\$ 0
Total Questioned Costs:			\$15,991,544

Summary of Management Comments

Management provided responses to the draft audit findings. A summary of management's comments follows:

- Management agreed with findings 2018-03, 2018-06, 2018-07, and 2018-08.
- Management disagreed with finding 2018-01 primarily due to DABS's having been able to locate a portion of the supporting documents in question subsequent to the exit conference;
- Management disagreed with finding 2018-02 primarily due to management's assumption that the Government was required to engage the independent auditor and due to the Government's having audited the PTEC project as part of its oversight activities;
- Management disagreed with finding 2018-04 due to DABS's belief that it is unreasonable to expect management to retain progress reports for five years or more;
- Management disagreed with finding 2018-05 due to DABS's belief that it had sufficient documentation to support transactions in question and its belief that the auditors did not locate the support and consider it appropriately during fieldwork; and
- Management disagreed with finding 2018-09 due to DABS's assertion that documents were unable to be located by the auditors during fieldwork and that the documents were provided for audit. DABS also noted it has previously received audit findings on these matters and has responded to federal agencies and auditors to support its position.

References to Appendices

The auditor's reports are supplemented by three appendices: **Appendix A**, which contains management's responses to the audit findings; **Appendix B**, which contains the auditor's rebuttal; and **Appendix C**, which contains photographs from various PTEC project sites.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors of Da Afghanistan Breshna Sherkat
Chaman Hozori, Kabul, Afghanistan

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Da Afghanistan Breshna Sherkat ("DABS"), and related notes to the Statement, with respect to the Power Transmission Expansion and Connectivity ("PTEC") project funded by Implementation Letter No. 22-1, as replaced by Implementation Letters 22-7, 22-27, and 22-43, awarded under Strategic Objective Grant Agreement No. SOAG-306-05-00 for the period January 1, 2013, through December 31, 2018.

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") and the terms and conditions of Implementation Letters 22-1, 22-7, 22-27, and 22-43. 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 Special Purpose Financial 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

We were not provided with sufficient, appropriate audit evidence to determine that \$15,991,544 in reported costs incurred on the Statement are eligible, accurately recorded, presented, and allocable to the implementation letters under audit. The costs have, therefore, been questioned. The \$15,991,544 amount is material and impacts various accounts on the Statement.

In addition, during the course of our procedures, we identified misstatements totaling \$2,650,455 and a material amount of questioned costs. The potential impact of the misstatements, when projected against the total costs incurred as reported on the Statement, could be material. Accordingly, had the scope limitation above been resolved, a qualified opinion would have been rendered.

(Continued)

Disclaimer of Opinion on the Special Purpose Financial Statement

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 Statement.

Basis of Presentation and Accounting

We draw attention to Notes 1, 2, 3, 4, 5, and 6 to the Statement, which describe the basis of presentation and accounting. The Statement is prepared in a format required by SIGAR and presents those amounts as permitted under the terms of Implementation Letter Number 22-1, as replaced by Implementation Letters 22-7, 22-27, and 22-43, issued under Strategic Objective Grant Agreement No. SOAG-306-05-00, 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 letters referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of DABS, 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 our reports dated August 31, 2020, on our consideration of DABS'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 that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DABS's internal control over financial reporting and compliance.

Crowe LLP
Crowe LLP

August 31, 2020
Washington, D.C.

DA AFGHANISTAN BRESHNA SHERKAT
SPECIAL PURPOSE FINANCIAL STATEMENT
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

	<u>Budget</u>	<u>Costs Incurred</u>	<u>Ineligible</u>	<u>Questioned Costs</u>	
				<u>Unsupported</u>	<u>Notes</u>
Revenues					
As per Implementation Letters 22-1, 22-7, 22-27, and 22-43					
Component 1: Capacity Building with DABS to Effectively Manage, Operate, and Maintain the National Power System	\$ -	\$ 42,384,616			
Component 2: Expand, Strengthen, and Integrate the North East Power System (NEPS) and Southern Electric Power System (SEPS)	-	142,222,595			
Component 3: Capacity Building with MEW to Effectively Perform Core Ministry Functions	-	-			
Component 3: Clean Energy Program	-	2,099,975			
Total Revenue	<u>-</u>	<u>186,707,186</u>			4
Costs Incurred					
As per Implementation Letter 22-1					5
Component 1: Capacity Building with DABS to Effectively Manage, Operate, and Maintain the National Power System	157,000,000	-		\$ -	17
Component 2: Expand, Strengthen, and Integrate the North East Power System (NEPS) and Southern Electric Power System (SEPS)	541,900,000	-		-	19
Component 3: Capacity Building with MEW to Effectively Perform Core Ministry Functions	-	-		-	18
Sub-Total: Implementation Letter 22-1	<u>698,900,000</u>	<u>-</u>		<u>-</u>	
Implementation Letter 22-7					
Component 1: Capacity Building with DABS to Effectively Manage, Operate, and Maintain the National Power System	157,000,000	6,416,817			19
Component 2: Expand, Strengthen, and Integrate the North East Power System (NEPS) and Southern Electric Power System (SEPS)	185,000,000	1,594,510		501,428	A
Component 3: Capacity Building with MEW to Effectively Perform Core Ministry Functions	-	-		-	
Sub-Total: Implementation Letter 22-7	<u>342,000,000</u>	<u>8,011,327</u>		<u>501,428</u>	

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

DA AFGHANISTAN BRESHNA SHERKAT
SPECIAL PURPOSE FINANCIAL STATEMENT
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

Implementation Letter 22-27				
Component 1: Capacity Building with DABS to Effectively Manage, Operate, and Maintain the National Power System	157,000,000	17,267,843	559,861	A, B
Component 2: Expand, Strengthen, and Integrate the North East Power System (NEPS) and Southern Electric Power System (SEPS)	185,000,000	34,918,520	9,958,091	A
Component 3: Clean Energy Program	<u>-</u>	<u>2,099,975</u>	<u>1,694,056</u>	A
Sub-Total: Implementation Letter 22-27	<u>342,000,000</u>	<u>54,286,338</u>	<u>12,212,008</u>	
Implementation Letter 22-43				
Component 1: Capacity Building with DABS to Effectively Manage, Operate, and Maintain the National Power System	157,000,000	18,699,956	1,752,361	A, B
Component 2: Expand, Strengthen, and Integrate the North East Power System (NEPS) and Southern Electric Power System (SEPS)	185,000,000	105,709,564	1,525,747	A, B
Component 3: Clean Energy Program	<u>-</u>	<u>-</u>	<u>-</u>	
Sub-Total: Implementation Letter 22-43	<u>342,000,000</u>	<u>124,409,520</u>	<u>3,278,108</u>	
Total Costs Incurred		<u>\$ 186,707,186</u>	<u>\$ 15,991,544</u>	
Balance		<u>\$ -</u>	<u>\$ 15,991,544</u>	6

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

DA AFGHANISTAN BRESHNA SHERKAT
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

NOTE 1: BASIS OF PRESENTATION

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Implementation Letter 22-1 dated December 5, 2012, as replaced by Implementation Letters 22-7 dated April 11, 2013, 22-27 dated November 30, 2014, and 22-43 dated January 12, 2016 for the period from January 1, 2013, through December 31, 2018. Because the Statement presents only a selected portion of the operations of Da Afghanistan Breshna Sherkat ("DABS"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of DABS. 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 Federal awards. 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

Revenues and expenditures reported on the Statement are reported on the accrual-based accounting. Such expenditures are recognized in accordance with the terms and conditions of the implementation letters 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, expenditures incurred in currencies other than United States Dollars ("USD") have been converted into USD. In relation to the exchange of USD into the local currency of Afghanistan ("AFN"), the basis of the exchange of currency will be the rate at which the currency was exchanged at that point in time. From January 1, 2013, through December 31, 2018, the highest exchange rate for 1.00 USD in AFN was 81.75 and the lowest was 51.02.

NOTE 4: REVENUES

Revenues on the Statement represent the amount of funds to which DABS is entitled to receive from the United States Agency for International Development ("USAID") Afghanistan for allowable, eligible costs incurred under the implementation letters during the period of performance.

NOTE 5: COSTS INCURRED BY BUDGET CATEGORY

The budget categories presented, and associated amounts reflect the budget line items presented within the final, approved award budget adopted as a component of the modification number 06 to the Grant Agreement dated December 11, 2013.

NOTE 6: 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. As of 31 December 2018, no outstanding balance existed.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

NOTE 7: CURRENCY

All amounts presented are shown in USD.

NOTE 8: SUBRECIPIENTS

No subrecipients were identified.

NOTE 9: PROGRAM STATUS

The PTEC program is complete. The period of performance for the award concluded on December 31, 2018, as noted in modification number IL 22-43 dated December 31, 2018.

NOTE 10: IMPLEMENTATION LETTER PERIODS OF PERFORMANCE

The Implementation Letters provided may kindly be referred to.

NOTE 11: SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to the January 1, 2013, through December 31, 2018 period covered by the Statement. Management has performed their analysis through August 31, 2020.

NOTE 12: CONSTRUCTION (ASSETS) (Unaudited)

This represent total payment made to the contractor against the transmission line and substation projects.

NOTE 13: CONSTRUCTION SUPERVISION (CONTRIBUTING TO THE RELEVANT ASSETS) (Unaudited)

This represent total payment made to the consultant firm against the services provided. The cost incurred is added to the value of relevant assets and is accounted for thereto.

NOTE 14: CONSULTANCY SERVICES (EXPENSES) (Unaudited)

DABS has appointed consulting firm to perform stipulated services, the cost incurred thereto has been represented herein. The cost having expense nature been expensed out during the period it occurred.

NOTE 15: PURCHASE & INSTALLATION (CONTRIBUTING TO THE RELEVANT ASSETS) (Unaudited)

Customer information system named manpower has been procured under this head along with some other costs. And the bulk meters procured and installed.

NOTE 16: PROCUREMENT OF (ELECTRIC ASSETS) (Unaudited)

The cost incurred is for the procurement of meter test bench. Which has been booked and accounted for as funded assets.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

NOTE 17: ELABORATIONS OF THE IL 22-1 AND SUBSEQUENT AMENDMENTS

IL 22-1 was initially signed between the government of the United States represented by the USAID and the government of Afghanistan represented by the Ministry of Finance, called the grant agreement. The said grant agreement has been amended, extended and/or modified from time to time to achieve the objectives of the Project more efficiently during the period under Project life cycle. The amendments - such as IL 22-7, IL 22-27, and IL 22-43 - do not represent additional grant agreement and the cost components remain the same with slightest approved modification elaborated therein. As an example, IL 22-43 is the approval for modification to Contract No DABS/92/ICB/004 Lot 1 NOT AN ADDITION OR CHANGE TO THE GRANT AGREEMENT. The other IL's could be kindly referred to. So, it is not practical to create cost categories for each Implementation Letter as it is mentioned in the sample SPFS.

NOTE 18: COMPONENT 3 (Unaudited)

DABS has not incurred or recorded any cost pertaining to Component 3: Capacity Building with MEW to Effectively Perform Core Ministry Functions.

NOTE 19: BUDGET

The budgeted figures are taken from IL 22-1 which has been revised by IL 22-7.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE
SPECIAL PURPOSE FINANCIAL STATEMENT
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE
FINANCIAL STATEMENT

- A. Finding 2018-01 questioned \$13,138,959 in unsupported costs. Specifically, during our testing of 90 transactions charged to the PTEC project and recorded on DABS's Special Purpose Financial Statement, we noted the following:
- DABS did not provide the M16 forms and accompanying supporting documentation (i.e., vendor invoices and evidence of management review and approval of the invoices) to conclude the costs recorded in the ledger were eligible and allocable to the PTEC project for 6 transactions totaling \$985,384; and
 - For 9 transactions totaling \$12,153,575, DABS provided the M16 form, but did not include any of the supporting documentation needed to conclude the costs were eligible and allocable.
- B. Finding 2018-05 questioned \$2,852,585 questioned costs due to inadequate supporting documentation for costs incurred.

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 Board of Directors of Da Afghanistan Breshna Sherkat
Chaman Hozori, Kabul, Afghanistan

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Da Afghanistan Breshna Sherkat ("DABS"), and related notes to the Statement, with respect to the Power Transmission Expansion and Connectivity ("PTEC") project funded by Implementation Letter No. 22-1, as replaced by Implementation Letters 22-7, 22-27, and 22-43, awarded under Strategic Objective Grant Agreement No. SOAG-306-05-00 for the period January 1, 2013, through December 31, 2018. We have issued our report thereon dated August 31, 2020, within which we have disclaimed an opinion because of an inability to obtain sufficient, appropriate audit evidence that costs incurred were eligible, allocable to the Statement, and accurately presented.

Internal Control over Financial Reporting

DABS'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 implementation letters; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation and accounting described in Notes 1, 2, 3, 4, 5, and 6 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 connection with our engagement to audit the Statement for the period January 1, 2013, through December 31, 2018, we considered DABS'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 DABS's internal control. Accordingly, we do not express an opinion on the effectiveness of DABS'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

(Continued)

identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-01, 2018-05, 2018-07, 2018-08, and 2018-09 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 2018-02, 2018-03, 2018-04, and 2018-06 to be significant deficiencies.

We noted certain matters that we reported to DABS's management in a separate letter dated August 31, 2020.

DABS's Responses to the Findings

DABS's response to the findings identified in our audit are described in Appendix A of this report. DABS's response to the findings was not subject to the auditing procedures applied in the audit of the 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 DABS, 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

August 31, 2020
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors of Da Afghanistan Breshna Sherkat
Chaman Hozori, Kabul, Afghanistan

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Da Afghanistan Breshna Sherkat ("DABS"), and related notes to the Statement, with respect to the Power Transmission Expansion and Connectivity ("PTEC") project funded by Implementation Letter No. 22-1, as replaced by Implementation Letters 22-7, 22-27, and 22-43, awarded under Strategic Objective Grant Agreement No. SOAG-306-05-00 for the period January 1, 2013, through December 31, 2018. We have issued our report thereon dated August 31, 2020, within which we have disclaimed an opinion because of an inability to obtain sufficient, appropriate audit evidence that costs incurred were eligible, allocable to the Statement, and accurately presented.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the implementation letters is the responsibility of the management of DABS.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, 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 ten 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 2018-09.

DABS's Responses to the Findings

DABS's response to the findings identified in our audit are described in Appendix A of this report. DABS's response to the findings was not subject to the auditing procedures applied in the audit of the 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

(Continued)

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 DABS, 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

August 31, 2020
Washington, D.C.

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

FINDING 2018-01: M16 Forms and Accompanying Supporting Documentation Not Provided

Material Weakness and Noncompliance

Condition: During our testing of 90 of 295 transactions charged to the PTEC project and recorded on DABS's Special Purpose Financial Statement, we noted the following:

- DABS did not provide the M16 forms¹ and accompanying supporting documentation (i.e., vendor invoices and evidence of management review and approval of the invoices) to conclude the cost recorded in the ledger were eligible and allocable to the PTEC project for two transactions totaling \$985,384;
- For 9 transactions totaling \$12,153,575, DABS provided the M16 forms, but did not include any of the supporting documentation, such as request for reimbursement letters, vendor invoices, and evidence of review and approval of the invoices needed to conclude the costs were eligible and allocable; and
- For 11 transactions totaling \$10,420,187, request for reimbursement letters that were approved by two authorized members of management were not provided.²

The following table summarizes the transactions noted above.

Sample Selection No.	Amount	M16 Form and Accompanying Supporting Documentation Not Provided	M16 Form Provided Without Supporting Documentation	Request for Reimbursement Letters Not Provided
4	\$883,295		X	X
6	\$501,428		X	X
7	\$347,601		X	X
11	\$4,911,288		X	
19	\$2,535,594			X
25	\$1,866,112		X	X
41	\$940,894			X
48	\$775,566			X
51	\$652,261		X	X
52	\$650,379		X	X
53	\$647,155		X	X
55	\$619,902			X
73	\$546,023	X		
84	\$439,361	X		
85	\$1,694,056		X	
TOTALS	\$18,010,915	2	9	11

¹ M16 form is a payment form used by the Afghan Ministry of Finance to pay vendors and contractors. The form is accompanied by supporting documents, such as request for reimbursement letter, vendor invoices, and evidence of review and approval of the invoices.

² Authorized approvers, per discussion with management, included the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, and Chief Commercial Officer.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

Criteria: Part X of Implementation Letters 22-1, 22-7, 22-27, and 22-43, "Specification of Disbursement Procedures of USAID Funds," states: "Disbursement of funds for PTEC shall be supported by a copy of an invoice for a contractor or supplier of goods and services and written verification that the goods and services specified in the invoice were delivered and accepted by DABS."

Section X proceeds to state that DABS' request for funds will be initiated by a Request for Reimbursement Letter that "will be prepared and approved only by an authorized and designated representative of DABS."

Part XIII of Implementation Letters 22-1, 22-7, 22-27, and 22-43, "Eligible Expenditures of USAID Funds for PTEC; Prohibited Use of USAID Funds," states in part: "USAID funds shall be used only to procure authorized goods and services necessary to support the PTEC project, as identified in the budget in Attachment 1."

Part XVI of Implementation Letters 22-1, 22-7, 22-27, and 22-43, "Financial Reports and Audits," states: "DABS shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show all costs incurred under the Agreement, the receipt and use of goods and services under the Agreement, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services, the basis of award of contracts and orders made, and the overall progress of the Agreement toward completion (Agreement books and records). DABS shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States, or at the DABS's option, with approval by USAID, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants), or (2) prevailing in the country of the Grantee. 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 required to resolve any litigation, claims or audit findings."

Pursuant to DABS's *Invoice Processing Flow Chart for USAID Funded Contracts*, the Project Manager is responsible for managing the project, which includes reviewing invoices prior to submission for payment.

Questioned Costs: \$13,138,959 in unsupported costs. The \$13,138,959 reflects those instances in which supporting documentation for the underlying expenditure demonstrating the cost was incurred for the PTEC project was not provided as denoted within the table. In those instances where only the Request for Reimbursement Letter was missing, the underlying cost is still considered to be supported and Crowe has not questioned the cost of the transaction.

Effect: USAID may have paid for costs that were ineligible or not allocable to the PTEC project.

Cause: DABs lacked policies and procedures requiring staff to retain supporting documentation and records to ensure costs recorded and charged to the PTEC project were eligible and allocable.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

Recommendation: We recommend that DABS:

1. Either provide documentation supporting the referenced transactions or reimburse USAID \$13,138,959;
2. Develop, document, and implement record retention procedures, including procedures for supervisory review, to ensure that supporting documentation and records are properly retained and able to be produced to support whether costs are allocable, and train staff on these procedures. Implementing an electronic document storage process may mitigate the risk of missing or lost records supporting costs incurred under USAID-funded awards.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

FINDING 2018-02: Required Annual Audits Not Completed

Significant Deficiency and Noncompliance

Condition: Crowe requested copies of DABS's annual audit reports for the PTEC project. DABS indicated that the company was audited by USAID for the period December 5, 2012, through December 31, 2014; however, management did not engage an auditor on an annual basis and, therefore, there were no other audit reports available for review. Accordingly, the required annual audits were not completed for the annual periods ended December 31, 2015, 2016, 2017, and 2018.

Criteria: Part XVI of Implementation Letters 22-1, 22-7, 22-27, and 22-43, states, "DABS shall ensure an annual financial audit of PTEC project. With USAID approval, DABS may 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, and the audits shall be performed in accordance with the Guidelines. The audits will determine whether the receipt and expenditure of the funds provided for PTEC project are presented in accordance with generally accepted accounting principles and whether the DABS has complied with the terms of this and subsequent ILs. Each audit will be completed no later than nine months after the close of the GIRoA's fiscal-year end. DABS shall ensure that the audits of recipients (including but not limited to contractors and sub-contractors) are conducted in accordance with the Guidelines."

Questioned Costs: The matter noted above is a result of noncompliance with the terms and conditions of the Implementation Letter. Questioned costs related to this matter cannot be determined.

Effect: In the absence of the annual audits, USAID is unable to determine whether the receipt and expenditure of the funds provided for PTEC project are presented in accordance with generally accepted accounting principles and whether the DABS has complied with the terms of the implementation letters.

Cause: DABS lacks policies requiring management to engage external auditor on an annual basis to complete required audits.

Recommendation: We recommend that DABS establish and implement a policy that identifies a specific member of senior management that is responsible for ensuring audits are conducted, if and as required by contracts and agreements executed with project sponsors.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

FINDING 2018-03: Lack of Support to Demonstrate Compliance with the Expected Grantee Contribution

Significant Deficiency and Noncompliance

Condition: To ascertain whether DABS provided the expected grantee contributions, Crowe inquired of management regarding DABS's mechanisms – including, but not limited to, accounting processes or special account codes in place – to record the grantee contribution separately from expenditures paid by USAID funds. DABS responded and indicated that the company did not establish a method to account for and track the grantee contribution and also did not maintain supporting documentation for costs that contribute to the required grantee contribution. Per DABS's response to the inquiry, the grantee contribution was "not applicable." In the absence of supporting documentation or a schedule of grantee contributions to assess, it is unclear whether DABS provided the expected grantee contribution.

Criteria: Section III (D) of the Implementation Letter 22-43, "The Grantee's Expected Contribution," DABS is expected to contribute the following to the PTEC project:

1. Staff time and facilities (including adequate office space, furniture and phone lines).
2. Contracting for goods and services required to implement all components in accordance with all applicable laws, regulations, policies and procedures and the terms and conditions set forth in this IL and subsequent ILs. This requirement includes properly administering and monitoring its contracts to support work specified is performed in accordance with the scope, term and budget of contracts.
3. Obtain and make available in a timely manner any real property required, with full right of way, free of any legal or physical encumbrances. This stipulation includes the removal of any structures, lines, or piping, above or below ground, and debris and waste (including hazardous materials) from land required for rehabilitation and construction works.
4. Obtain, in a timely manner, any required permits, licenses or other Government of Afghanistan approvals.
5. Provide necessary appropriately qualified staff in a timely manner, and all facilities including adequate office space, office furniture, office equipment and supplies (including computers and printers), communications and utilities necessary to support the successful implementation of PTEC.
6. Ensure reasonable access to all Grantee sites, facilities, equipment and documents related to PTEC are provided to USAID, including its employees, authorized representatives, organizations and individuals working under contract with USAID, including the USAID Quality Assurance contractor(s).
7. Provide assistance, in accordance with Section B.4 (Taxation) of Annex 2 (Standard Provisions) to the Agreement, with the facilitation of tax, customs and duty exemptions for USAID-funded equipment and commodities and tax exemptions available to non-Afghan contractors and non-Afghan nationals engaged to support the implementation of PTEC. Additionally, the Grantee will provide assistance with the issuance of any required business or other licenses, visas, work authorizations, or other approvals required for non-Afghan organizations and non-Afghan nationals engaged to support the implementation of PTEC.
8. Provide any other information and resources, including funding, required to successfully complete PTEC.

Per discussion with DABS, the accounting and finance department under the Chief Financial Officer's division is responsible for retaining the source documents related to financial activities.

Questioned Cost: The contract did not specify the required amount of matching contribution to be provided by DABS; therefore, the amount of questioned costs cannot be determined.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

Effect: In the absence of supporting documentation or a schedule of grantee contributions to assess, it is unclear whether DABS provided the expected grantee contribution.

Cause: DABS did not implement internal control policies and procedures to require management to account for and track costs that contribute to the required grantee contribution in accordance with the IL or maintain supporting documentation of contributions or a schedule of grantee contributions.

Recommendation: We recommend that DABS:

1. Assemble and provide to USAID/Afghanistan a schedule identifying and quantifying contributions provided to the PTEC project;
2. Provide training to its financial management personnel regarding accounting for and reporting of grantee contributions;
3. Design, document, and implement procedures for the identification and tracking of grantee contributions and retention of supporting documentation for the contribution made by DABS.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

FINDING 2018-04: Required Monthly Progress Reports Were Not Provided for Audit

Significant Deficiency and Noncompliance

Condition: To determine whether DABS complied with reporting requirements appearing within the implementation letters, we requested 16 monthly progress reports and evidence of submission to USAID for testing. DABS did not provide any of the 16 requested monthly progress reports to Crowe for testing. Per discussion with management, DABS completed reports but was unable to locate them.

In addition, DABS did not maintain documented procedures regarding the preparation, review, and submission of the required monthly progress reports.

Criteria: Part XVII of the Implementation Letters 22-1, 22-7, 22-27, and 22-43, *Program Reports, including Progress Reports*, states, "DABS shall provide USAID with monthly progress reports on PTEC project, including, but not limited to the status of planning, procurements, contracting, and execution of the works, construction schedules, and achievements to date."

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework* states, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

Questioned Costs: None

Effect: In the absence of the monthly progress reports, USAID's ability to fully and adequately monitor project performance and may be adversely impacted.

Cause: DABS did not implement adequate procedures regarding the retention and management of records, including reports.

Recommendation: We recommend that DABS design, document, and implement procedures for regarding records retention and management to mitigate the risk of records regarding USAID-funded activities being lost or otherwise unavailable to support project audits and reviews.

(Continued)

DA AFGHANISTAN BRESHNA SHERKAT
SECTION I: SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
GRANT NO. SOAG-306-05-00, IMPLEMENTATION LETTERS 22-1, 22-7, 22-27, AND 22-43
For the Period January 1, 2013, through December 31, 2018

FINDING 2018-05: Inadequate Supporting Documentation for Costs Incurred

Material Weakness and Noncompliance

Condition: During our testing of 90 of 295 transactions charged to the PTEC project and recorded on DABS's Special Purpose Financial Statement, we identified nine transactions totaling \$10,009,664 for which DABS provided M16 forms and invoice copies. However, the documentation provided did not adequately support the full amounts recorded in the financial records supporting the Special Purpose Financial Statement. In the absence of invoices that agree to the total amount recorded and paid to DABS as well as copies of deliverables or other documentation to support the eligibility and allocability of the costs, the inadequately supported portion of each transaction is in question. The list below presents the transactions and the questioned cost amount applicable to each transaction:

Selection No	Vendor	Date	Amount in USD	Questioned Cost in USD
10	KEC International Ltd	9/18/2016	\$5,626,774	\$56,000
30	KEC International Ltd	11/8/2016	1,486,959	831,790
50	KEC International Ltd	3/2/2016	679,864	117,466
57	KEC International Ltd	5/14/2017	600,685	520,491
71	Phoenix IT Solutions Ltd	10/15/2018	634,633	634,633
74	Phoenix IT Solutions Ltd	4/12/2016	180,213	180,213
76	Phoenix IT Solutions Ltd	5/10/2017	432,480	143,936
78	Phoenix IT Solutions Ltd	12/8/2015	120,500	120,500
81	Phoenix IT Solutions Ltd	12/13/2016	247,556	247,556
Total Questioned Costs				\$2,852,585

Criteria: Part X of Implementation Letters 22-1, 22-7, 22-27, and 22-43, *Specification of Disbursement Procedures of USAID Funds* states, "Disbursement of funds for PTEC shall be supported by a copy of an invoice for a contractor or supplier of goods and services and written verification that the goods and services specified in the invoice were delivered and accepted by DABS."

Part XIII of Implementation Letters 22-1, 22-7, 22-27, and 22-43, "Eligible Expenditures of USAID Funds for PTEC; Prohibited Use of USAID Funds," states in part: "USAID funds shall be used only to procure authorized goods and services necessary to support the PTEC project, as identified in the budget in Attachment 1."

In response to Crowe's internal controls questionnaire, DABS indicated that the assigned Project Manager is responsible for reviewing invoices for allowability and processing invoices. In addition, DABS stated the Accounting / Finance Department under the Chief Financial Officer's Division is responsible for retaining source documentation associated with its financial activities.

Questioned Costs: \$2,852,585 in unsupported costs.

Effect: USAID may have paid for costs that were ineligible or not allocable to the PTEC project.

Cause: DABS did not implement adequate internal control procedures over maintenance of supporting documentation to ensure expenditures charged to the award are eligible, allowable and allocable. In

(Continued)

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addition, the project manager's review of transactions for allowability prior to payment does not appear to have been effective as required supporting documentation was unavailable.

Recommendation: We recommend that DABS:

1. Either provide documentation supporting, such as copies of contractor or supplier invoices for goods or services furnished, written verification that the goods or services specified in the invoice were delivered and accepted by DABS for the referenced transactions or reimburse USAID \$2,852,585;
2. Develop, document, and implement a procedure to periodically review supporting documentation and records to ensure records are properly retained and able to be produced; and
3. Provide training to its financial management personnel regarding adequacy of review and approval of supporting documentation to ensure that costs charged to the award are allowable and allocable.

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FINDING 2018-06: Lack of Independent Monitoring Control

Significant Deficiency and Noncompliance

Condition: Crowe inquired of DABS's management to obtain an understanding of monitoring controls implemented by the company. DABS indicated the company has an internal audit department that executes monitoring. For the PTEC project, however, internal audits were not performed. Rather, DABS indicated the project manager and contractor conducted reviews for compliance and provided applicable approvals. We requested evidence of periodic monitoring for compliance with procurement, reporting, and cost eligibility. DABS did not provide evidence of monitoring. Therefore, we concluded that DABS did not establish and implement an independent monitoring control to ensure compliance with applicable USAID requirements.

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework states, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

Section XV of Implementation Letters 22-1, 22-7, 22-27, and 22-43, "Monitoring and Evaluation," states in part that "DABS will develop its own monitoring, evaluation, and reporting plan for PTEC."

Questioned Costs: None

Effect: Without independent monitoring, the risk of errors, omissions, or improper actions related to costs incurred and charged to the award is increased.

Cause: DABS does not have procedures in place that require that its internal audit department to independently monitor PTEC project internal controls or compliance with PTEC project requirements specified in the implementation letters.

Recommendation: We recommend that DABS utilize its internal audit department to independently monitor controls to ensure compliance with applicable requirements related to the PTEC project.

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FINDING 2018-07: Improperly Presented and Misstated Special Purpose Financial Statement (SPFS)

Material Weakness

Condition: During our testing of the SPFS provided for audit, we noted the following material misstatements:

1. The SPFS did not include the required revenue and balance accounts; and
2. DABS did not specify the costs incurred and budgeted amounts for each implementation letter issued by USAID. See Finding 2018-08 for additional detail regarding cost misallocations.

DABS subsequently modified the SPFS to include the required revenue and balance accounts and to specify costs incurred under and budgeted amounts for each implementation letter such that the material presentation errors were resolved.

Regarding the amounts reported on the SPFS and the underlying supporting financial records, we requested and obtained DABS's SPFS and the listing of allowable expenditures supporting the reported costs incurred. We identified two potential omissions from the SPFS and one cost that was improperly included on the SPFS. Two expenditure transactions paid to KEC International Ltd. in the amounts of \$1,647,929 and \$1,002,526 were not included in the financial records supporting the revised SPFS. However, they were included within the initial population of costs represented by management as being eligible and allocable to the implementation letters, and evidence of DABS's requesting reimbursement from USAID was provided. Accordingly, the costs appear to have been improperly omitted from the SPFS.

Last, a transaction in the amount of \$315,360 that was incurred outside of the period covered by the statement was reported on the SPFS. The \$315,360 is, therefore, not allocable to the SPFS and is in question. Upon identification by the auditor, management removed the cost from the SPFS.

Criteria: Part XVI of Implementation Letters 22-1, 22-7, 22-27, and 22-43, "Financial Reports and Audits," states: "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, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Grantee, the basis of award of contracts and orders made directly by the Grantee, and the overall progress of the Agreement toward completion (Agreement books and records). The Grantee shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States, or at the Grantee's option, with approval by USAID, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants), or (2) prevailing in the country of the Grantee."

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 and the terms and conditions of Implementation Letters 22-1, 22-7, 22-27, and 22-43. 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.

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework* states, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

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Questioned Costs: None, due to management's having removed the \$315,360 transaction from the SPFS.

Effect: In the absence of proper review and approval of the SPFS by management, the SPFS may not include all of the required accounts and the information presented may not be accurate and complete. In addition, misstatements on the SPFS may result in USAID's reliance on inaccurate financial data.

Cause: DABS does not have adequate procedures requiring supervisory review and approval of financial statements for accuracy, completeness, and inclusion of all required accounts.

Recommendation: We recommend that DABS:

1. Modify the SPFS to include the two expenditures totaling \$2,650,455 that were incurred and charged to the Implementation Letter but were not reported in the SPFS or otherwise provide documentation demonstrating the costs were not reimbursed by USAID and supporting the allocation of the costs to a non-PTEC account;
2. Develop, document, and implement a procedure for the review and approval of financial statements for accuracy, completeness, and inclusion of all required accounts and disclosures; and
3. Provide training to applicable personnel regarding financial reporting expectations and procedures.

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FINDING 2018-08: Costs Misallocated to IL 22-7

Material Weakness

Condition: DABS did not report costs on its SPFS by the correct Implementation Letter (IL). DABS's supporting documentation for costs incurred (i.e., the description part of the face sheet on each M16 provided) under the PTEC project noted that each cost was incurred under IL 22-7. However, IL 22-1 was in place for the first four months of the period covered by the Special Purpose Financial Statement ("SPFS"); no costs were reported as allocable to IL 22-1.

In addition, IL 22-1 was replaced by IL 22-7 effective April 11, 2013. IL 22-7 was subsequently replaced by IL 22-27 effective November 30, 2014. IL 22-27 was later replaced by IL 22-43 effective January 12, 2016. Therefore, all costs during the period covered by the SPFS were not allocable to and eligible for coverage under IL 22-7. Rather, costs should have been charged to the respective implementation letter in effect at the time the applicable costs were incurred. Such a presentation is necessary to demonstrate alignment with the approved budgets included in the implementation letters.

DABS subsequently modified the SPFS to reflect an allocation of costs to each respective IL.

Criteria: *Section XIII. Eligible Expenditures of USAID Funds for PTEC; Prohibited Use of USAID Funds* contained within ILs 22-1, 22-7, 22-27, and 22-43 states, "USAID funds shall be used only to procure authorized goods and services necessary to support PTEC project, as identified in the budget in Attachment 1."

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 and the terms and conditions of Implementation Letters 22-1, 22-7, 22-27, and 22-43. 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.

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework* states, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

Questioned Costs: None

Effect: Failure to appropriately allocate and report expenditures by IL may prevent USAID from being able to adequately monitor spending in accordance with approved budgets and program components.

Cause: DABS's personnel were not trained adequately to identify and record costs to the appropriate implementation letters. In addition, supervisory personnel responsible for reviewing and approving the SPFS and M16s did not perform effective reviews.

Recommendation: We recommend that DABS:

1. Provide training to personnel completing the M16s regarding the identification and recording of costs to the appropriate ILs; and
2. Develop, document, and implement a periodic monitoring of activity to assess the accuracy of cost allocations between implementation letters for accounting and reporting purposes.

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FINDING 2018-09: Inadequate Documentation Supporting Procurement Activities

Material Weakness and Noncompliance

Condition: DABS issued contracts/purchase orders to eight contractors/vendors under the Implementation Letters subject to audit. We tested three of the eight procurement contracts/purchase orders totaling \$191,806,646. During our testing procedures, we noted that DABS did not retain documentation within its procurement files to support procurement activities' compliance with applicable Afghanistan procurement laws. Specifically, we noted the following for all sampled procurements listed below:

1. Documentation supporting vendor's qualifications and financial viability was not provided by DABS;
2. Procurement announcement documents were not provided for review and evaluation; and
3. Documentation demonstrating that invitations to pre-qualify or notices of tendering were published in mass media was not provided.

Selection No	Vendor	Contract/Purchase Order Execution Date	Contract/Purchase Order Amount in USD
1	KEC International Ltd	11/2/2016	113,180,018
2	USLUEL-OMRAN JV	9/28/2016	20,428,720
3	Phoenix IT Solutions Ltd	4/11/2013	9,976,714
	Phoenix IT Solutions Ltd	6/23/2014	27,465,095
	Phoenix IT Solutions Ltd	12/23/2013	20,756,099
Total			\$191,806,646

Criteria: Section V, *PTEC Method of Implementation*, of Implementation Letters 22-1, 22-7, 22-27, and 22-43 require DABS to observe full compliance with the Government of the Islamic Republic of Afghanistan's procurement laws, regulations, policy and procedures.

Afghanistan Procurement Law, 2008, Chapter III: *Eligibility and Qualification of Bidders*, Article 17: Eligibility and Qualification, states: "(3) A bidder shall show that is possess the necessary professional and technical qualifications and competence, financial resources, equipment and other physical facilities, managerial capability, experience in the procurement object, business reputation, and personnel necessary to perform the contract to be able to participate in the procurement process."

Afghanistan Procurement Law, 2008, Chapter IV: *Procurement Proceedings and Conditions for Implementation Thereof*, Article 26: Procurement Announcement, states:

The announcement of procurement shall include [the] following information:

- (i) Procurement description;
- (ii) The means for obtaining the bidding documents;
- (iii) The deadline for the submission of bids, and the time and venue for holding tendering sessions;
- (iv) The procuring entity address;
- (v) Requirement for provision [or otherwise] of security.
- (vi) Any other information in accordance with the provisions of this Law.

Afghanistan Procurement Law, 2008, Chapter IV: *Procurement Proceedings and Conditions for Implementation Thereof*, Article 27: Publication of Announcement, states:

- (1) The 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

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- (2) in the English language in media of wider international circulation, the expenditure for same to be met by procuring entity. For both domestic and international procurement, procuring entities shall to the greatest extent feasible, also public procurement announcements through the internet.
- (3) No publication of announcement is required for single source procurement.

Questioned Costs: DABS did not comply with the terms and conditions of the Implementation Letter related to the above matters only and provided partial documentation related to its procurement activities. Therefore, questioned costs related to this matter cannot be determined.

Effect: In the absence of adequate documentation to support procurement, cost reasonableness, eligibility, and allocability of procurements charged to the award could not be determined.

Cause: DABS's did not develop and implement procurement procedures that require retention of procurement records pertaining to contract solicitation documents; vendors' qualifications and financial viability; procurement announcements; and invitations to pre-qualify or notices of tendering. Further, DABS did not provide adequate training to its procurement personnel regarding retention of procurement records.

Recommendation: We recommend that DABS:

1. Develop, document, and implement procurement procedures to require that contract solicitation documents, including vendors qualifications and financial viability; procurement announcement; and invitations to pre-qualify or notices of tendering are retained and made available upon request; and
2. Provide training to its procurement personnel regarding retention of adequate supporting documentation related to procurement activities to demonstrate compliance with the Afghanistan Procurement Law.

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Crowe requested copies of prior reports, assessment and evaluations from SIGAR, DABS and USAID. We identified three prior audit reports - one of which contained nine findings and recommendations that may be direct and material to the Special Purpose Financial Statement or other financial information significant to the audit objectives. We conducted follow-up procedures and reviewed the auditors' comments regarding the status of prior audit findings. Accordingly, we determined that DABS had taken corrective action on two findings and the remaining seven findings were not corrected and repeated under this audit again.

Financial Audit of US Agency for International Development Resources Managed by Da Afghanistan Breshna Sherkat under Power Transmission Expansion and Connectivity and the Installation of Turbine Generator Unit at Kajaki Dam Hydropower Plant Projects, for the period December 5, 2012 through December 31, 2014, audit report No. F-306-16-014-N performed by Davis and Associates Certified Public Accountants, PLLC.

Finding No. DABS 1 - USAID Implementation Letter Terms – Ineligible Costs

Issue: DABS did not fully comply with the terms of the agreement in the following two instances:

1. DABS contractors purchased several motor vehicles without the advance, written approval of USAID as was required by Implementation Letter clause IL 22-7, XIII and IL 56 – E 1, "Prohibited Use of USAID funds."
2. DABS did not regularly report to USAID on the progress of the nine areas of weakness identified in IL 22-2. DABS was able to satisfy the 12 conditions precedent identified in IL 22-2, but no documentation was provided for the nine items that required DABS to continue to make improvements and report to USAID on a regular basis.

Status: We obtained evidence that DABS provided additional supporting documentation to USAID. USAID Afghanistan recovered \$97,000 of the \$966,446 in questioned costs. USAID Afghanistan determined that the \$571,200 of the \$966,446 for purchase of four vehicles was allowable. USAID Afghanistan, however, suspended the payment for the remaining \$298,246 in questioned costs related to the purchase of 10 vehicles. We noted that this matter was repeated during our audit as noted in Finding 2018-01. During the performance of our audit procedures, we noted several transactions where DABS did not fully comply with the terms of the agreement by not providing M16 forms and accompanying supporting documentation (i.e., vendor invoices and evidence of management's review and approval of the invoices) to support costs recorded in the ledger were eligible and allocable to the PTEC project. Therefore, we concluded that adequate corrective action has not been taken by DABS with respect to this matter.

Finding No. Phoenix 1 - Procurement of Accommodation Services and Sole Source Business Arrangement with Safi Landmark Hotel – Unsupported Costs

Issue: DABS did not provide evidence of justifications for the sole source procurements with Safi Landmark Hotel.

Status: We obtained evidence that DABS provided supporting documents justifying why Safi Landmark Hotel was selected as a sole source to provide accommodation services. USAID Afghanistan determined that this finding was an internal control weakness in the procurement process rather than questioned costs; therefore, the questioned cost of \$890,537 was determined to be allowable. We noted this matter was repeated during our audit due to DABS's not providing evidence to demonstrate the procurement process was executed in accordance with applicable laws, rules, and regulations. See finding 2018-09 in our report. Corrective action taken, therefore, is not considered to be adequate.

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Finding No. Phoenix 2 - Procurement without Competitive Bid Process – Unsupported Costs

Issue: DABS' subcontractor Phoenix procured items on a sole source basis and without documenting any quotes obtained or justification memos for not obtaining the quotes prepared at the time of procurement. The total questioned amount was \$99,024.

Status: We obtained evidence of additional supporting documentation DABS provided to USAID. USAID Afghanistan reviewed the additional supporting documents provided and determined the questioned cost of \$99,024 was allowable. We noted this matter was repeated during our audit. During our audit of procurement activities, we noted DABS didn't retain documentation supporting vendor qualifications and financial viability; procurement announcement; and invitations to pre-qualify or notices of tendering, which were not published in mass media. We documented the result of our procedures in Finding 2018-09. Therefore, we concluded that adequate corrective action has not been taken by DABS with respect to this matter.

Finding No. Phoenix 3 - Cash Payments to Vendors

Issue: DABS' subcontractor Phoenix paid almost all its vendors, suppliers and employees in cash rather than using the banking system, which is widely available in Kabul. The procurement of goods and services paid in cash included rental vehicles, internet services, office supplies, laptop computers, accommodation costs, APPF security services, local employees and contract drivers hired, etc. The amount of cash payments was very significant and over \$160,000 was paid to Safi Landmark Hotel alone for accommodation and other services for the month of November 2014.

Status: We obtained evidence that DABS provided supporting documentation to USAID. We noted DABS' subcontractor Phoenix established a finance policy that requires of using the banking system for disbursements that have high value transactions. This matter was not repeated during our audit.

Finding No. Phoenix 4 - Overbilling for Per Diem Allowance to Employees by Phoenix Under GT Contract DABS/91/ICB/038 – Ineligible Costs

Issue: DABS' subcontractor Phoenix overbilled \$3,000 in Per Diem allowance for employees who traveled in August and September 2014. Phoenix's travel policy and the Contract with DABS approved a fixed rate of \$300 per person per round-trip and \$150 per one-way trip in Per Diem allowances. However, in August and September 2014, Phoenix billed a total of \$6,000 instead of \$3,000 for 20 one-way trips resulting in an overbilling of \$3,000. The questioned cost amount was \$3,000.

Status: We confirmed with USAID/Afghanistan and obtained evidence that DABS refunded USAID \$3,000 in questioned costs. We noted this matter was not repeated during our audit. As such, we concluded that adequate corrective action has been taken by DABS with respect to this matter.

Finding No. Phoenix 5 - Billing for Costs of an In-House Developed Product without Supporting Documentation for Actual Costs Incurred – Unsupported Costs

Issue: Phoenix's subcontract agreement (DABS/91/ICB/039) with DABS authorized a line item of \$110,000 for "Implementation services for MIS, and PMRS software includes on time development/customization and implementation costs for the MIS and Performance Monitoring & Review System Software." In accordance with the contract agreement, Phoenix billed DABS 4 equal installments of \$27,500 totaling \$110,000. Upon request for supporting documentation for the actual costs incurred, Phoenix stated that the product/system was developed in-house by its staff and no supporting documentation for actual costs incurred was

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available. However, Phoenix provided copies of the design documents and user manual. Therefore, the entire \$110,000 was questioned as unsupported costs.

Status: We obtained evidence that DABS provided supporting documents and based on the additional supporting documents provided, USAID Afghanistan determined that the questioned cost of \$110,000 was allowable. We noted this matter was repeated during our audit as noted in Finding 2018-01. During our audit procedures, we noted for several transactions DABS did not fully comply with the terms of the agreement by not providing M16 forms and accompanying supporting documentation, such as vendor invoices and evidence of management's review and approval of the invoices to support costs recorded in the ledger were eligible and allocable to the PTEC project. As such, we concluded that adequate corrective action has not been taken by DABS with respect to this matter.

Finding No. GFA 1 - Procurement without Competitive Bid Process Unsupported Costs

Issue: DABS subcontractor GFA's procurements of goods and services were not supported by adequate documentation, including any quotes obtained or justification memos for not obtaining the quotes at the time of procurement. In addition to lack of competitive bid process, GFA did not maintain adequate documentation to support some costs. Total Amount Questioned \$1,729,589.

Status: Crowe obtained evidence of additional supporting documentation provided by DABS to USAID Afghanistan. USAID determined that the additional supporting documentation was not sufficient. Therefore, USAID recovered the \$1,729,589 in questioned costs. We noted this matter was repeated during our audit. During our audit of DABS' procurement activities, we noted DABS didn't retain documentation supporting vendors qualifications and financial viability; procurement announcement; and invitations to pre-qualify or notices of tendering, which were not published in mass media. We documented the result of our procedures in Finding 2018-09. Therefore, we concluded that adequate corrective action has not been taken by DABS with respect to this matter.

Finding No. GFA 2 - Costs in Excess of Allowable Limits - Ineligible Costs

Issue: DABS's subcontractor, GFA, incurred excessive costs for procurement and billed the costs to the contract with DABS but did not provide supporting documentation to show costs were reasonable.

Status: Crowe obtained evidence that USAID Afghanistan recovered the \$31,346 in questioned costs from DABS. We noted this matter was repeated during our audit as noted in Finding 2018-09. Therefore, we concluded that adequate corrective action has not been taken by DABS with respect to this matter.

Finding No. GFA 3 - No Written Procedures and Cash Payments to Vendors

Issue: DABS's subcontractor, GFA, did not establish a written procedures manual for procurement, travel, and accounting - including a limit for cash transactions - and as a result paid some of its local vendors in cash. Cash payments to local vendors included internet service, fuel for vehicles, vehicle rental and vehicle purchases. These items were procured for up to \$40,000 per transaction. In addition, GFA did not maintain and provide proper support for some of its vendor payments, particularly major international vendors and contractors paid from their Dubai bank account.

Status: USAID Afghanistan reviewed supporting documents provided by DABS's subcontractor and determined it cannot require DABS to take actions with regard to this finding because the sub-award contract between DABS and GFA expired on February 29, 2016. We reviewed the documentation provided to USAID and did not notice policies or procedures established to resolve the aforementioned finding. As noted in Finding 2018-01, DABS did not maintain and provide proper support for some of the costs incurred

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and charged to the grant. Therefore, we concluded that adequate corrective action has not been taken by DABS with respect to this matter.

Appendix A: Views of Responsible Officials

DABS provided the following response to Crowe via email on August 29, 2020. The response has been included herein verbatim and source formatting retained. Due to the volume of additional documentation provided in conjunction with the management response, the additional documentation has not been included. DABS may provide those documents to USAID/Afghanistan through alternative media, should DABS elect to do so.

MANAGEMENT RESPONSE to FINDING 2018-01: M16 Forms and Accompanying Supporting Documentation Not Provided

As discussed during the finding meetings, all of the documents that were difficult to be located and presented to the auditors' field team belonged to the audited period already audited back in 2015, and based on this very reason DABS has removed those files from the shelves and secured them in the documents store. Moving DABS HQ from the previous location at Chaman Hozuri area to the new location at Dehmazang area made a bit more difficult to locate those documents. But in spite of all those difficulties we have retrieved handful amount of documents and provided to the auditor through a separate email as elaborated in the table below:

1. The following:
 - a. A total of (12) RFRL totaling to amount of (20,209,321) out of the list sent in support of this finding,

Supporting Documents (Request for Reimbursement Letter)		
num	RFRL amount	
1	\$ 4,911,288.00	√
2	\$ 4,525,333.00	√
3	\$ 2,535,594.00	√
4	\$ 1,866,112.00	√
5	\$ 1,486,959.00	√
6	\$ 940,894.00	√
7	\$ 775,566.00	√
8	\$ 652,261.00	√
9	\$ 650,379.00	√
10	\$ 647,155.00	√
11	\$ 619,902.00	√
12	\$ 597,878.00	√
Total	\$ 20,209,321.00	

- b. A total of (05) invoices totaling to amount of (8,727,195) out of the list sent in support of this finding,

Supporting Documents (Vendor Invoices)		
num	INVOCE amount	
1	\$ 4,911,288.00	√
2	\$ 1,866,112.00	√
3	\$ 652,261.00	√
4	\$ 650,379.00	√
5	\$ 647,155.00	√
Total	\$ 8,727,195.00	

- c. and a total of (04) M16 totaling to amount of (10,533,454.2) out of the list sent in support of this finding, have been located and are submitted attached to this response letter.

M16 Forms		
num	amount	
1	\$ 647,154.90	√
2	\$ 4,580,927.98	√
3	\$ 524,396.32	√
4	\$ 4,780,975.00	√
Total	\$ 10,533,454.20	

have been located and are submitted attached to this response letter. **The reason is simply the auditors could not locate those files and the final list was shared with DABS only after we requested.**

- The figures in the final excel file "M16 not provided" with total value of USD 16,966,626 is not matching with above stated figures but we could break down the list and the support documents are provided via a separate email.
- All of the M16's that difficult to locate, belongs to the years 2013 and 2014 that are moved to the archive because of the reasons (i) they are too old to be kept on hand and (ii) they have been audited by the SIGAR recruited auditor back in 2015.

The reason is simply the auditors could not locate those files and the final list was shared with DABS only after we requested. Based on the above mentioned clarifications, DABS suggests, auditors should revise recommendation No 1 in the recent Audit Report.

MANAGEMENT RESPONSE to FINDING 2018-02: Required Annual Audits Not Completed

As indicated in the "audit findings meeting", the appointment of auditors to audit the PTEC project or any other USAID funded project comes within the sole authority of USAID and SIGAR. Although, they already appointed the auditor for auditing PTEC project that finished in December 2015. However, we remain prepared for any audit deployed thereto. Moreover, not recruiting auditor on periodic basis and auditing everything after almost seven years doesn't serve any purpose underlying with the audit

principles and practices and makes it more difficult to handle the audit. The problem mentioned in finding No 1 is exactly due this very issue.

We couldn't understand that from one side the 'lack of annual audit has been being mentioned as a finding' by the auditor and from the other side, the prior period audit has not been accepted and DABS is required to provide the M16s of audited period.

Whereas we agree with the recommendation No 2 and we will develop separate action plan to implement it.

MANAGEMENT RESPONSE to FINDING 2018-03: Lack of Support to Demonstrate Compliance with the Expected Grantee Contribution

Due to current limitations, DABS cannot quantify the contributions mentioned in point 1 through 7, so that accounting transaction could be made, though DABS has fulfilled all their obligation and there has not been any funding contributed by the grantee so that accounting transactions would have been recorded for it. Nonetheless, DABS agree with the auditors' recommendation pertaining preparation of detailed listing of the granting contribution to the donor which will be included in the Notes section of SPFS in the coming accounting period.

MANAGEMENT RESPONSE to FINDING 2018-04: Required Monthly Progress Reports Were Not Provided for Audit

As the auditors better know progress reports are kept for a short period of time. The moment the progress was ensured; same assurance was communicated to all parties including donors. In line with the existing procedures, it was ensured that the progress be submitted before the monthly invoices are processed and/or approved.

It is practically not convenient to keep the progress reports of a project for five years. However, DABS agrees with Recommendation No 04 and will develop a proper procedure and document management system.

MANAGEMENT RESPONSE to FINDING 2018-05: Inadequate Supporting Documentation for Costs Incurred

Particularly, DABS would like to highlight that the auditors' comments on the part of inadequate supporting documentations don't represent the true picture as to the table is prepared. The table doesn't elaborate what the auditors at the field were trying to explain during the meeting at DABS, therefore, we had to develop a separate table putting the under review M16's in two categories.

Cat, 1: Some of the M16s were having more than one invoices attached to them (meaning that two or three invoices are paid annexed to one M16) but the auditors were able to locate some of these invoices but could not locate others. DABS has found and

presented the 'missing invoices' to the auditors in the field after the 'meeting on the audit findings'. This category includes the first four rows of the table provided below. Cat, 2: During the projects' implementation DABS and the donor were "separately" checking the invoices being submitted by the vendor. If, any of the payments in part or in full was not in line with the contract or was not supported by adequate documents, were disallowed or held for submission of supporting documents (in the next case). So, Cat, 2 contains all those deductions or on-hold amounts of the vendors' invoices, whereas the auditor's field has incorrectly the approved and supported-by-document amounts under questioned cost. Below table is presented for further elaboration:

Selection No	Vendor	Date	Amount in USD	Questioned Cost in USD	DABS Remarks
10	KEC International Ltd	9/18/2016	5,626,774	56,000	The subject M16 was containing two invoices and the auditors at the field were simply unable to locate the second, which was presented to them from the same pack of documents under their custody. And the required level of auditors' field team was obtained.
30	KEC International Ltd	11/8/2016	1,486,959	831,790	The subject M16 was containing two invoices and the auditors at the field were simply unable to locate the second, which was presented to them from the same pack of documents under their custody.
50	KEC International Ltd	3/2/2016	679,864	117,466	The subject M16 was containing two invoices and the auditors at the field were simply unable to locate the second, which was presented to them from the same pack of documents under their custody.
57	KEC International Ltd	5/14/2017	600,685	520,491	The subject M16 was containing two invoices and the auditors at the field were simply unable to locate the second, which was presented to them from the same pack of documents under their custody.
71	Phoenix IT	10/15/2018	634,633	634,633	During the meeting with auditors' field team after the exit conference, to our surprise, we

	Solutio ns Ltd				came to know that the actual invoices was raised by the vendor for USD-708,253 and there has been deduction of USD-73,620 by the donor whereas USD-634633 were paid. But the auditors' being unable to match the stated amount of invoice with the paid amount, incorrectly put the whole amount under the questioned cost. (708,253 - 634633 = 73,620).
74	Phoeni x IT Solutio ns Ltd	4/12/ 2016	180,213	180,213	The invoices were un-stapled, the auditors' were unable to locate them, but after the exit conference they were presented to the auditors' field team.
75	Phoeni x IT Solutio ns Ltd	2/27/ 2016	91,693	28,569	There has been deduction by the donor same as selection No 71.
76	Phoeni x IT Solutio ns Ltd	5/10/ 2017	432,480	143,936	There has been deduction by the donor same as selection No 71.
78	Phoeni x IT Solutio ns Ltd	12/8/ 2015	120,500	120,500	The USD-25 were deducted from the vendor invoices as the available balance was short by the same amount due to bank charges paid in earlier invoices.
81	Phoeni x IT Solutio ns Ltd	12/1 3/20 16	247,556	247,556	Invoice amount is 430,966.34 but due to the deduction USD-183,410.03 made by the donor as explained in the selection No 71 USD-247,556.31 has been paid to the vendor, but the auditors incorrectly put the paid cost under questioned cost.
Total Questioned Cost				\$2,321,066	

As recommended (Recommendation No 1), we have provided the required documentation to the auditors at the field and we agree with recommendation 2 and 3 and will implement them accordingly.

MANAGEMENT RESPONSE to FINDING 2018-06: Lack of Independent Monitoring Control

DABS Corporate Management Support was one of the projects funded under the PTEC program aiming to enhance DABS capacity in corporate governance amongst others. The internal audit department and the M&E departments were established/enhanced with proper charter, ToR, SoW and staffing. The M&E department initiated the “Monitoring” practice at the last stages but the quality was required to be improved from time to time. Same was the case with the Internal Audit (IA) department, which started auditing DABS activities during the course of time, but auditing the PTEC program as well as other donors’ funding projects was something that required to be enhanced. Due to the fact that the IA was required to be staffed with Internal Auditors having English language proficiency.

The auditor’s recommendation is well taken and will be implemented under a proper plan.

MANAGEMENT RESPONSE to FINDING 2018-07: Improperly Presented and Misstated Special Purpose Financial Statement (SPFS)

In all of our audit practices, we submit the draft FS (in this case SPFS) to the auditors and continue working on provision of supporting documents, workings, schedules etc. and at the same time waiting for any adjustments recommended by the auditors. We have reviewed the adjustments recommended by the auditors and have thoroughly incorporated them into the SPFS, and finally submitted the finalized and signed version of the SPFS. We agree with the auditors’ recommendations. The issue has been tackled via the revised SPFS.

MANAGEMENT RESPONSE to FINDING 2018-08: Costs Misallocated to IL 22-7

Please refer to our response against finding 2018-07. The issues have been tackled and sorted out vide the revised SPFS.

MANAGEMENT RESPONSE to FINDING 2018-09: Inadequate Documentation Supporting Procurement Activities

DABS does have all the procurement files available on hand. They were provided to the auditors but some of the papers works could not be located by the auditors at the field. The said documents were provided to the auditor during the two days extra field work.

1. Vendors qualification and financially viability documents were included in the Bid Evaluation Report which was provided to auditors.
 2. The announcement documents were provided to the auditors.
 3. This was a two-envelope single-stage bidding, hence there was no pre-qualification stage.
-

We acknowledged the prior auditors' finding and we have thoroughly responded to (i) the auditors' "Davis Associates Certified Public Accountants, PLLC. (ii) to the SIGAR Office and (iii) to the USAID itself. We agreed with a couple of findings which have been thoroughly implemented and we have had supporting documents for the others which have been presented to the auditors', the SIGAR team and to the USAID, justifying DABS stand points.

Crowe's auditors has asked for those audit reports and the Management responded simultaneously with this draft report which is provided.

The following documents/response letters are attached for the review of the auditors.

- 1- DABS Response letter to OIG Audit finding for Kajaki & PTEC Pro (2012--Dec2014)
- 2- GFA-010-1.2.2-1369 Response to OIG Audit Report (2012--Dec2014)
- 4- DABS-012-1.2.1-0463 Credit Notes For B6 Vehicles
- 5- DABS-010-1.2.2 1299 B6 Credit Notes
- 6- Request for RMC single source
- 3- Phoenix Response to Audit Report USAID 31052016
- 7- DABS 2nd response to USAID IL-No 22-61 and IL-NO SOAG # 7-10

Appendix B: Auditor's Rebuttal

Crowe LLP ("Crowe" or "we" or "us") has reviewed the management of Da Afghanistan Breshna Sherkat's ("DABS" or "the auditee") responses to the draft report audit findings provided to Crowe on September 1, 2020. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. Crowe incorporates a rebuttal in those instances where management disagrees with the facts presented within the condition, does not concur with Crowe's recommendation, or provides additional documentation for review. In those instances where management either agrees with the finding or does not disagree with the facts in the finding, as presented, no rebuttal is provided. Using this framework, Crowe has incorporated one rebuttal to management's comments, below.

Finding 2018-01

DABS disagreed with the finding due to: 1) a portion of the audit period had previously been subject to audit; 2) DABS's assertion that the finding's cause is that "the auditors could not locate those files and the final list was shared with DABS only after [DABS] requested;" and 3) DABS's having located supporting documentation after the exit conference; With regard to the additional documentation located by DABS, we have reviewed the supporting documentation.

With respect to prior audits and records difficult to locate due to archiving, we appreciate management's concern. However, we note that – as cited within the *criteria* section of the finding, records are required to be maintained until three years from the date of the last disbursement by USAID, at a minimum. Therefore, we do not consider a previous audit's having occurred to be relevant to documentation not having been provided and have not revised the finding for this matter.

Regarding DABS's assertion that the auditors could not locate files and the final list was not shared with DABS, neither point is accurate. It is management's responsibility to provide access to documents and the auditors' responsibility does not extend to searching for or otherwise locating files on management's behalf. Furthermore, the auditors provided to management notices of anticipated audit findings as well as email updates regarding the findings. Management chose not to respond to the notices as well as to various emails. As a result, management's comments regarding the auditors not having located files are not considered valid and do not warrant revision to the report.

As management indicated within the response, the documentation was not produced during fieldwork thus indicating the finding was accurate as originally presented. We have, however, reviewed the additional documentation provided and assessed the impact on the finding. We noted the following during our review:

- Four of the six M16s not previously provided were produced by DABS. The finding has been revised accordingly and the questioned costs reduced by
- Of the nine transactions for which M16 forms were provided but for which supporting documentation (e.g., vendor invoices and request for reimbursement letters) was not provided, DABS provided copies of five invoices and three requests for reimbursement letters. Of the five invoices, one was illegible, one included an advance payment to a vendor totaling \$4.9 million without a contractual agreement to support the disbursement of funds prior to work being performed, and three did not agree to the transaction amounts in the expenditure detail supporting the SPFS or otherwise specify how the total invoice amounts were allocated to conclude the invoices pertain to the USAID-funded projects only. We have revised the finding to indicate DABS provided supporting documentation that was insufficient to conclude the documentation supported the amounts charged to USAID.
- With regard to the 15 transactions for which DABS did not previously provide copies of the request for reimbursement letters (RFRL), DABS provided 12 RFRLs for additional review with the management responses. Of the 12 RFRLs provided, four cleared previously noted exceptions. Two of the RFRLs were not in the format required by the Implementation Letters.

(Continued)

The remaining six RFRLs provided did not agree to the transaction amounts sampled and, therefore, are not considered adequate support to alter the finding.

No further revisions to the finding were considered necessary.

Finding 2018-02

DABS disagreed with the finding based on DABS's understanding that "the appointment of auditors to audit the PTEC project or any other USAID funded project comes within the sole authority of USAID and SIGAR." DABS also disagreed because there was a prior audit conducted by the Government that had not been accepted by DABS. Whereas Section XVI of the Implementation Letters expressly states "The Grantee shall ensure an annual financial audit of the PTEC project," that each audit is required to be completed within nine months from the close of the Government of the Islamic Republic of Afghanistan's fiscal year-end, and addresses certain requirements pertaining to DABS's engaging an auditor, we have not modified the finding. The Implementation Letters place the requirement on DABS to ensure the audit is performed annually. The Government may perform additional audits; however, the Implementation Letters do not appear to support DABS's perspective that the Government is responsible for engaging the auditor or that audits performed by SIGAR and/or USAID substitute for DABS's contractually obligated audit.

Finding 2018-04

DABS disagreed with the finding based on DABS's assertion that it is not convenient to retain progress reports for five years. Whereas management did not provide copies of progress reports to alter the facts underlying the finding and Section XVI of the Implementation Letters states books and records for the project are required to be maintained until three years from the date of the last disbursement by USAID, at a minimum.

Finding 2018-05

We have reviewed management's response and noted: 1) no additional documentation was provided to support clearing questioned costs; 2) it is not the responsibility of the auditor to "locate" invoices within management's records; and 3) DABS's ledger presenting the costs incurred under the PTEC project did not present data providing an auditable record that communicates amounts DABS asserts were short paid by USAID thus failing to account for the total incurred cost. As previously communicated to management during the exit conference and during both preliminary findings discussion meetings with DABS, if there were documents to support management's perspective and request for modification, the documentation could be provided with the management responses. No such items were provided with the response to address this finding and support management's assertions. In consideration of these matters and management not having providing documentation that may serve as sufficient, appropriate audit evidence to clear reported matters, the finding has not been changed.

Finding 2018-09

We have reviewed management's response and noted: 1) no additional documentation was provided to support modification to the finding; and 2) it is not the responsibility of the auditor to "locate" supporting documentation for management. As previously communicated to management during the exit conference and during both preliminary findings discussion meetings with DABS, if there were documents to support management's perspective and request for modification, the documentation could be provided with the management responses. No such items were provided with the response to address procurement. In consideration of these matters and management not having providing documentation that may serve as sufficient, appropriate audit evidence to clear reported matters, the finding has not been changed.

Appendix C: Photographs of PTEC Salang Station Site Visit

Pictured below is the Salang Station Inauguration banner:



(Continued)

Pictured below is the Crowe Horwath Afghanistan team and the DABS team during a field inspection:



(Continued)

Pictured below is Salang Station:



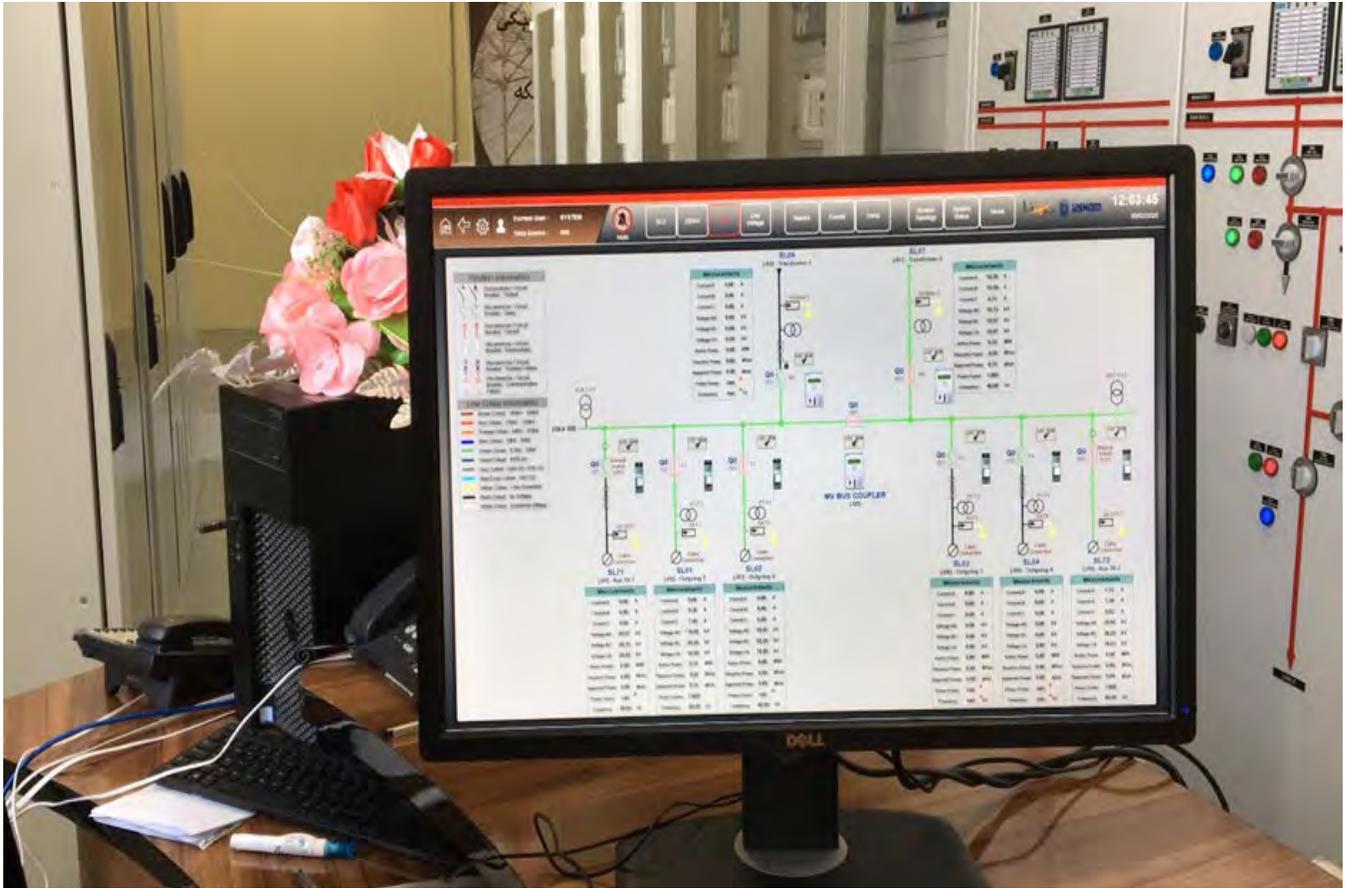
(Continued)

Pictured below is a Salang Transformer – Seimens Make



(Continued)

Pictured below is the Salang Monitoring System:



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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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