

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 17-20 Financial Audit

USAID's Kandahar Helmand Power Project: Audit of Costs Incurred by Black & Veatch Special Projects Corporation

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



JANUARY
2017

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 9, 2010, the U.S. Agency for International Development (USAID) awarded a \$266 million, 34-month contract to Black & Veatch Special Projects Corporation (BVSPC) to fund the Kandahar Power Initiative. As a critical component of the U.S. government's counterinsurgency strategy in southern Afghanistan, the initiative was part of a national program intended to improve the South East Power System and connect it with other electrical grids in Afghanistan. Over the course of 18 modifications, the program was renamed the Kandahar Helmand Power Project (KHPP), the budget was reduced to \$229 million, and the period of performance was extended to November 30, 2015. USAID authorized BVSPC to conduct contract closeout activities through December 31, 2015.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$227,372,464 charged to the contract from December 9, 2010, through December 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in BVSPC's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether BVSPC has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of BVSPC's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

January 2017

USAID's Kandahar Helmand Power Project: Audit of Costs Incurred by Black & Veatch Special Projects Corporation

SIGAR 17-20-FA

WHAT THE AUDIT FOUND

Crowe identified 4 material weaknesses, 4 significant deficiencies in BVSPC's internal controls, and 10 instances of noncompliance with the terms and conditions of the KHPP contract. Of note, Crowe found that BVSPC was reimbursed for more than \$1.3 million in subcontractor costs that BVSPC did not incur and therefore were not reimbursable. The auditors questioned another \$34,473 because BVSPC did not complete a cost or price analysis for a procurement for mobile phone service. Crowe also reported several findings arising from deficiencies in BVSPC's property and inventory records.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$1,350,382 in total questioned costs, consisting of \$1,313,191 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations—and \$37,191 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Durai Junction Substation Construction	\$1,313,191	\$0	\$1,313,191
Program Support	\$0	\$34,473	\$34,473
Property	\$0	\$2,718	\$2,718
Totals	\$1,313,191	\$37,191	\$1,350,382

Crowe reviewed five prior audit reports applicable to the KHPP and conducted follow-up procedures on seven items that could have a direct and material effect on the SPFS or other financial information significant to the audit objectives. Crowe concluded that BVSPC had not taken adequate corrective action on three of the seven items related to subcontractor suspension and debarment disclosures, implementation of its disaster recovery process, and performance of internal audits.

Crowe issued an unmodified opinion on BVSPC's SPFS, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$1,350,382 in questioned costs identified in the report.
2. Advise BVSPC to address the report's 8 internal control findings.
3. Advise BVSPC to address the report's 10 noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 11, 2017

The Honorable Gayle E. Smith
Administrator, U.S. Agency for International Development

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by Black & Veatch Special Projects Corporation (BVSPC) under a U.S. Agency for International Development (USAID) contract to support the Kandahar Helmand Power Project (KHPP).¹ Crowe's audit covered \$227,372,464 in expenditures charged to the contract from December 9, 2010, through December 31, 2015. 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 audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$1,350,382 in total questioned costs identified in the report.**
- 2. Advise BVSPC to address the report's 8 internal control findings.**
- 3. Advise BVSPC to address the report's 10 noncompliance findings.**

The results of Crowe's audit are detailed 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 BVSPC's Special Purpose Financial Statement. We also express no opinion on the effectiveness of BVSPC's internal control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Crowe did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-084)

¹ USAID awarded contract number 306-C-00-11-00506 to BVSPC to implement the Kandahar Power Initiative, later renamed KHPP, which was intended to improve the South East Power System and connect it with other electrical grids in Afghanistan.



Black & Veatch Special Projects Corporation

Special Purpose Financial Statement

**Kandahar Helmand Power Project funded by Contract Number 306-C-00-11-00506 as Issued by the
United States Agency for International Development**

For the Period December 9, 2010, through December 31, 2015

(With Independent Auditor's Report Thereon)

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Transmittal Letter

December 16, 2016

To the Executive Committee of Black & Veatch
6800 West 115th Street, Suite 2200
Overland Park, Kansas 66211-2420

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 reflecting the procedures that we have completed during the course of our financial audit of Black & Veatch Special Projects Corporation's ("BVSPC") contract number 306-C-00-11-00506-00 funding the Kandahar Helmand Power Project. The contract was awarded to BVSPC 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 BVSPC, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction provided both in writing and orally throughout the audit planning and fieldwork phases. Management's responses to the audit findings are included as an appendix within our report.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of BVSPC's project.

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

On December 9, 2010, the United States Agency for International Development (“USAID”) awarded contract number 306-C-00-11-00506 to Black & Veatch Special Projects Corporation (“BVSPC”) funding certain activities that contribute to USAID/Afghanistan’s Kandahar Power Initiative, later renamed the Kandahar Helmand Power Project (KHPP). KHPP is a critical component of the U.S. government’s Counterinsurgency strategy in Southern Afghanistan and is part of a larger program to improve South-East Power System and connect it with other electrical grids in Afghanistan. Six primary actions and objectives were included within the initial contract scope, including:

- Improving the Kandahar Power Distribution System;
- Rebuilding the Durai Junction Substation;
- Providing regional camp and program management;
- Providing transportation, installation, operation, and maintenance actions in connection with the Kandahar Industrial Park Diesel Power Plant;
- Rebuilding the Kajaki Dam Substation and local distribution system; and
- Installing and commissioning Kajaki Unit 2.

The initial contract included obligated funding of \$266,017,820, inclusive of ██████████ in costs and ██████████ in fee, and a period of performance from December 4, 2010, through September 30, 2013. The contract was modified 18 times. The modifications included changes to the scope of work and also reduced the contract budget to \$229,222,022, including ██████████ in costs and ██████████ in fee. Further, the period of performance for the scope of work was extended to November 30, 2015. As a component of the modifications, USAID authorized \$780,000 for closeout and post contract completion costs through December 31, 2015, and \$137,500 to fund support of the 2016 SIGAR audit. During the audit period, BVSPC reported ██████████ in costs and ██████████ in fee earned for a total of \$227,372,464.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of BVSPC’s Special Purpose Financial Statement presenting the revenues earned and costs incurred under the contract funding the Kandahar Helmand Power Project.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period December 9, 2010, through December 31, 2015, for contract number 306-C-00-11-00506-00. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. 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 compliance 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;
- Equipment and Property Management;
- Procurement; and
- Reporting.

Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by BVSPC. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance 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 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review of the contract executed by and between BVSPC and USAID and subsequent modifications and the Code of Federal Regulations (“CFR”) – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected federal expenditures, vouchers submitted for payment to USAID, performance and financial reports, contractor-acquired and government-furnished property, and purchase orders and subcontracts for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess BVSPC's compliance. In addition, Crowe tested BVSPC's indirect costs that were charged to the award. The Government identified indirect cost rates for use by BVSPC within the base contract. Within the signed contract document, USAID indicated that the indirect cost rates incorporated within the contract were to be used until such a time that new indirect cost rates were negotiated. The new rates could then be applied to the applicable cost bases up to the rate caps appearing in the contract. To test BVSPC's indirect cost charges, we utilized a sample of vouchers submitted to USAID for payment and attempted to agree the indirect cost rates used by BVSPC to those in effect for the applicable period covered by the voucher. We also obtained documentation from BVSPC indicating that adjustments were made to indirect cost charges that were based on preliminary rates, as appropriate.

Regarding Audit Objective 4, Crowe inquired of both BVSPC and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow-up. Five such reports were identified.

Due to the location of the completed work products and facilities, physical observations were performed in Afghanistan. Audit procedures were, however, performed in the United States of America.

Summary of Results

Upon completion of Crowe's procedures, Crowe issued an unmodified opinion on the SPFS.

With regard to matters of internal control and compliance, Crowe identified four material weaknesses and four significant deficiencies in internal control. Crowe also reported on BVSPC's compliance with applicable laws, rules, regulations, and the terms and conditions of the contract. Ten instances of noncompliance were identified. Matters of noncompliance were reported as a result of their being material and/or having resulted in questioned costs. A total of \$1,350,382 in questioned costs were identified during the audit as summarized in **TABLE A**. The summary is intended to present an overview of the results of procedures completed for the purposes described herein and is not intended to be a representation of the audit's results in their entirety.

Lastly, Crowe requested copies of prior audits, reviews, and evaluations pertinent to BVSPC's financial performance under the contract. Per communications with BVSPC and USAID as well as Crowe's review of publicly available information, there were five such reports evaluated. Of the five reports, two contained observations and recommendations that may be material to the SPFS or financial data significant to the audit objectives. Seven matters were identified for follow-up within the reports. As a result of Crowe's follow-up procedures, Crowe concluded that adequate corrective action had not been taken with respect to three of the seven items. The specific results of the follow-up procedures and the status of the prior findings are noted within **SECTION 2**.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs
2016-01	Unreimbursable Transaction	\$1,313,191
2016-02	Incomplete or Inaccurate Property Records	\$0
2016-03	Reconciliations of Inventory to Financial Records not Performed	\$377
2016-04	Disposition Support not Provided or Otherwise Inadequate	\$1,986
2016-05	Evidence of Receipt not Provided	\$0
2016-06	Lost, Damaged, Destroyed, and Stolen Items	\$355
2016-07	Written Subcontractor Disclosures	\$0
2016-08	Cost or Price Analyses	\$34,473
2016-09	Annual Report of Government Property	\$0
2016-10	Incorrect Application of Indirect Cost Rates	\$0
Total Questioned Costs:		\$1,350,382

Summary of Management Comments

Management agreed with each finding except for Findings 2016-01 and 2016-10. Regarding finding 2016-01, management considered its submission of the retainage charges for reimbursement by USAID to be appropriate. Although payment of the retainage was not made by BVSPC to its subcontractor, BVSPC considered the crediting of liquidated damages against the retainage amount owed to the subcontractor to be appropriate under the circumstances and based on the terms of BVSPC's subcontract. Regarding finding 2016-10, BVSPC considered its delaying use of negotiated indirect cost rates for billing until the contract was modified to incorporate new rates to be appropriate.

References to Appendices

The auditor's reports are supplemented by four appendices: **Appendix A**, which contains management's responses to the audit findings; **Appendix B**, which contains the auditor's rebuttal; **Appendix C**, which itemizes the property for which BVSPC could not provide adequate disposition support as discussed in finding 2016-04; and **Appendix D**, which includes photographs of the Kajaki Dam and other locations where BVSPC completed work funded by the contract.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Executive Committee of Black & Veatch
6800 West 115th Street, Suite 2200
Overland Park, Kansas 66211-2420

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

Report on the Special Purpose Financial Statement

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Black & Veatch Special Projects Corporation ("BVSPC"), and related notes to the Statement, for the period December 9, 2010, through December 31, 2015, with respect to the Kandahar Helmand Power Project funded by contract number 306-C-00-11-00506 awarded by the United States Agency for International Development.

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") in Appendix IV of Solicitation ID11140014 ("the Contract"). 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 our audit. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

(Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, revenues earned, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by BVSPC in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of contract number 306-C-00-11-00506-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

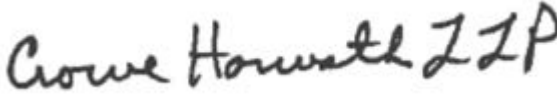
As discussed in Note 10, BVSPC made a payment of [REDACTED] at the direction of USAID following USAID's entering into a settlement [REDACTED]. This amount is reported as a cost incurred within the Statement. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of BVSPC, Black & Veatch, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated November 2, 2016, on our consideration of BVSPC's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BVSPC's internal control over financial reporting and compliance.



Crowe Horwath LLP

November 2, 2016
Washington, D.C.

Black and Veatch Special Projects Corporation
Special Purpose Financial Statement
Contract Number 306-C-00-11-00506-00
For the Period December 9, 2010, through December 31, 2015

	<u>Questioned Costs</u>				
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
USAID - Contract No. 306-C-00-11-00506-00	\$ 229,222,002	\$ 227,372,464			
Total Revenue	\$ 229,222,002	\$ 227,372,464			4
<i>Costs Incurred</i>					
CLIN No. 1 - Improve Kandahar Power Distribution System	\$ ██████████	\$ ██████████			5
CLIN No. 2 - Build Durai Junction Substation	██████████	██████████	\$ 1,313,191		10
CLIN No. 3 - Program Support and Program Management	██████████	██████████		\$ 34,473	A
CLIN No. 4 - Transportation, Installation, Operation and Maintenance of SIPD	██████████	██████████			
CLIN No. 5 - Rebuild the Kajaki Dam Substation and Local Distribution System	██████████	██████████			
CLIN No. 6 - Support for Installation and Commission Kajaki Unit 2	██████████	██████████			
Total Costs Incurred	\$ 218,994,447	\$ 217,242,805		2,718	B, C, D
Balance	\$ ██████████	\$ ██████████	\$ 1,313,191	\$ 37,191	6

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

Black and Veatch Special Projects Corporation
Notes to the Special Purpose Financial Statement
For the Period December 9, 2010, through December 31, 2015

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number 306-C-00-11-00506-00 for the Kandahar Helmand Power Project (KHPP) for the period December 9, 2010 through December 31, 2015. Because the Statement presents only a selected portion of the operations of Black and Veatch Special Projects Corporation ("BVSPC"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of Black and Veatch Special Projects. 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 contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Subpart 31.2, *Contracts with Commercial Organizations*, and Cost Accounting Standards wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

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

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which BVSPC is entitled to receive from USAID for allowable, eligible costs incurred and fixed fee under the contract 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, USAID-approved contract budget adopted as a component of the 17th modification to the contract dated October 15, 2015

Note 6. Outstanding Balance

The outstanding balance represents the fee earned on the project.

Note 7. Currency

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

(Continued)

Note 8. Program Status

BVSPC's Kandahar Helmand Power Project (KHPP) is inactive. The period of performance for contract 306-C-00-11-00506-00 was scheduled to conclude on November 30, 2015, as noted in modification number 12 dated December 29, 2013. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement are a result of additional modifications and at the request of SIGAR to include costs through December 31, 2015.

Costs under the award continue to be incurred through 2016 for legal settlement and audit support as authorized by USAID through modification 18 including additional funding of \$837,500 to CLIN 3 Program Support and Program Management. As of December 31, 2015, BVSPC had incurred [REDACTED] in such costs.

Note 9. Reconciliation to Invoiced Amounts

As of December 31, 2015, BVSPC had submitted invoices to the Government totaling \$227,292,757. The difference between the amount invoiced and the \$227,372,464 presented on the Statement are 2015 costs that were billed in 2016 totaling \$79,706.

Note 10. Settlement with [REDACTED]

USAID entered into a settlement [REDACTED] on March 26, 2015 as a result of a Request for Equitable Contract Adjustment. On April, 17, 2015, BVSPC issued a payment in the amount of [REDACTED] pursuant to this agreement. BVSPC was not a party/participant in the negotiations between USAID and [REDACTED] and therefore does not precisely know what costs were reimbursed or how the amount was calculated. Therefore, payment was rendered at a fixed amount based on the agreement.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the December 9, 2010, through December 31, 2015, period covered by the Statement. Management has performed their analysis through November 2, 2016.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement¹

Note A. Unreimbursable Transaction

Finding 2016-01 questioned \$1,313,191 due to a transaction that was not paid by BVSPC having been reimbursed by USAID.

Note B. Reconciliations of Inventory to Financial Records not Performed

Finding 2016-03 questioned \$377 as a result of an unidentified difference between the financial records identifying those items that were purchased using Federal funds and those items which are accounted for and were physically observed.

Note C. Disposition Support was Either Not Provided or was Otherwise Considered Inadequate

Finding 2016-04 identified \$1,986 in questioned costs as a result of BVSPC's either not having provided supporting documentation to show that certain property items were disposed of in accordance with USAID's instructions or having provided inadequate evidence of appropriate disposition.

Note D. Lost, Damaged, Destroyed, and Stolen Items

Finding 2016-06 reported \$355 in questioned costs due to BVSPC's not having provided both copies of lost, damaged, destroyed, or stolen item reports and evidence of USAID's having relieved the company of responsibility for six items (software, a DVD receiver, two office chairs, a shredder, and a SIM card).

Note E. Cost or Price Analyses

Finding 2016-09 reported \$34,473 in questioned costs due a cost or price analysis not having been performed and other documentation supporting the reasonableness of costs incurred not having been provided.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Executive Committee of Black & Veatch
6800 West 115th Street, Suite 2200
Overland Park, Kansas 66211-2420

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Black & Veatch Special Projects Corporation ("BVSPC"), and related notes to the Statement, for the period December 9, 2010, through December 31, 2015, with respect to the Kandahar Helmand Power Project funded by contract number 306-C-00-11-00506 awarded by the United States Agency for International Development. We have issued our report thereon dated November 2, 2016.

Internal Control over Financial Reporting

BVSPC'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 contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period December 9, 2010, through December 31, 2015, we considered BVSPC'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 BVSPC's internal control. Accordingly, we do not express an opinion on the effectiveness of BVSPC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2016-02, 2016-03, 2016-04, and 2016-07 in the accompanying Schedule of Findings and Questioned Costs 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 noted in Findings 2016-01, 2016-05, 2016-06, and 2016-09 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We identified two deficiencies in internal control that we communicated to management as identified in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-08 and 2016-10.

We noted certain matters that we reported to BVSPC's management in a separate letter dated November 2, 2016.

Black & Veatch Special Projects Corporation's Response to the Findings


BVSPC's response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of BVSPC, 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 Horwath LLP

November 2, 2016
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Executive Committee of Black & Veatch
6800 West 115th Street, Suite 2200
Overland Park, Kansas 66211-2420

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Black & Veatch Special Projects Corporation ("BVSPC"), and related notes to the Statement, for the period December 9, 2010, through December 31, 2015, with respect to the Kandahar Helmand Power Project funded by contract number 306-C-00-11-00506 awarded by the United States Agency for International Development. We have issued our report thereon dated November 2, 2016.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the grants and cooperative agreements is the responsibility of the management of BVSPC.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2016-01, 2016-02, 2016-03, 2016-04, 2016-05, 2016-06, 2016-07, 2016-08, 2016-09, and 2016-10 in the accompanying Schedule of Findings and Questioned Costs.

Black & Veatch Special Projects Corporation's Response to the Findings

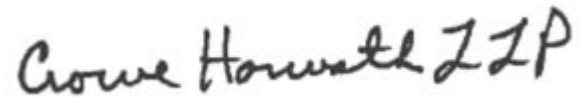
BVSPC's response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of BVSPC, 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.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, slightly slanted style.

Crowe Horwath LLP

November 2, 2016
Washington, D.C.

SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2016-01: Unreimbursable Transaction

Significant Deficiency and Noncompliance

Condition: Black & Veatch Special Projects Corporation ("BVSPC") entered into a contract with [REDACTED] in order to perform the work for the Durai Junction. Upon completion of the project, [REDACTED] invoiced BVSPC for \$1,313,191, which was for a 10% retainage withheld until work was complete. BVSPC recorded the invoice as an expense and submitted the invoiced amount to USAID for reimbursement. USAID reimbursed BVSPC the \$1,313,191.

In reassessing the contract, BVSPC noted that although the project was successful and complete, a transmission tower arm failure impacted the project's agreed-upon completion date. As such, [REDACTED] failure to meet a number of subcontract milestones resulted in the application of liquidated damages. The assessed damages totaled \$1,347,428.

Instead of paying [REDACTED] the \$1.313 million that remained payable from the retainage, BVSPC elected to net the payable amount against the liquidated damages total of \$1.347 million and to forego accessing the bank guarantee to fund the remaining damages amount. This approach results in the liquidated damages serving as a de facto credit provided to BVSPC for amounts otherwise due to [REDACTED]. In the absence of a disbursement by BVSPC and BVSPC's having utilized the damages amount as a credit, the \$1.313 million does not qualify as an allowable reimbursable cost.

While BVSPC concurred that there was not a disbursement to [REDACTED] for the \$1.313 million invoice amount, management did note that there were BVSPC costs incurred as a result of [REDACTED] performance delays. Specifically, BVSPC provided a schedule of approximately \$355,000 in costs related to this matter that were classified as unallowable within BVSPC's financial records. Due to these costs having been recorded as unallowable and not having been included on the Special Purpose Financial Statement, the costs and underlying support were not included within the scope of Crowe's audit procedures.

Criteria: Pursuant to FAR 52.216-7(b), for the purpose of reimbursing allowable costs, costs must be paid as of the date that reimbursement is requested from the Government, in accordance with the terms and conditions of the subcontract, or otherwise within 30 days of submission of the reimbursement request in order to be considered reimbursable. Exceptions are provided for pension, deferred profit sharing, employee stock ownership plan contributions, indirect costs, and materials issued from the Contractor's inventory and placed in production for use on the contract.

As per FAR 31.201-5, *Credits*, "The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction of by cash refund."

Questioned costs: \$1,313,191

Effect: Revenue and costs incurred are overstated on the SPFS. Further, the Government disbursed Federal funds that were not otherwise payable to BVSPC under Federal requirements as a result of BVSPC's not having made the payment to [REDACTED]

Cause: BVSPC elected to offset the amount payable to [REDACTED] with the liquidated damages amount due to concerns regarding the collectability of the damages assessed.

Recommendation: We recommend that BVSPC reimburse the Government \$1,313,191.

(Continued)

Finding 2016-02: Incomplete or Inaccurate Property Records

Material Weakness and Noncompliance

Condition: When conducting our equipment and property management procedures, we identified the following errors:

Issue	Errors Noted in Sample of 70 Items	Errors Noted within the Population of 5,044 Items
1. Unique identifiers (i.e., serial numbers per BVSPC process) not included in the property records.	29 (Including two items that, per BVSPC, should not have been included in the property records. See issue #5)	2,671
2. Government property numbers not included in the property records.	11	867
3. Manufacturer information not recorded/entered in the property records.	23	2,139
4. No designation of item as contractor acquired property or government furnished property.	1	156
5. Two switch gears (sample items 30 and 31) were identified within the inventory but were not ultimately purchased. The corresponding purchase order number for the items also did not pertain to switch gears, but rather to supply/commercial item purchases from a different vendor. The total acquisition cost reported on the inventory was \$901,600.	2	2
6. Items noted as Government Furnished Property than are associated with BVSPC purchase order numbers and should be appropriately classified as contractor acquired property.	32 (Including two items that, per BVSPC, should not have been included in the property records. See issue #5)	539

Criteria: FAR 52.245-1 states the following:

(iii) *Records of Government property.* The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, manufacturer, model number, and National Stock Number (if needed for additional item identification tracking and/or disposition).
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.

(Continued)

(10) Date placed in service.

FAR 52.245-1 defines government furnished property and contractor acquired property as follows:

Contractor-acquired property means property acquired, fabricated, or otherwise provided by the Contractor for performing a contract, and to which the Government has title.

Government-furnished property means property in the possession of, or directly acquired by, the Government and subsequently furnished to the Contractor for performance of a contract. Government-furnished property includes, but is not limited to, spares and property furnished for repair, maintenance, overhaul, or modification. Government-furnished property also includes contractor-acquired property if the contractor-acquired property is a deliverable under a cost contract when accepted by the Government for continued use under the contract.

BVSPC's Property Management Plan states:

[REDACTED]

- | [REDACTED]
- | [REDACTED]
- | [REDACTED]
- | [REDACTED]

Questioned costs: None

Effect: The likelihood that items will be lost, stolen, damaged, or destroyed without BVSPC's knowledge or that reporting to USAID will be unreliable or inaccurate is elevated.

Cause: There were written procedures in place; however, a variety of individuals were involved in property management and did not consistently follow the procedures. Management failed to detect the inconsistencies and errors as personnel were not properly trained to perform the procedures.

Recommendation: We recommend that BVSPC complete a full review of its KHPP property records and correct those items that are either in error or contain omissions. The exercise should be completed prior to the formal closeout of the contract and a final, corrective inventory should be provided to USAID. We further recommend that BVSPC require those individuals who were involved in property administration under KHPP and who remain employed by BVSPC to undergo remedial training in order to reduce the likelihood of similar issues being observed in future USAID projects.

(Continued)

Finding 2016-03: Reconciliations of Inventory to Financial Records Not Performed

Material Weakness and Noncompliance

Condition: We requested a copy of the reconciliation completed by BVSPC following completion of a physical property inventory performed during each year of the audit period. BVSPC was unable to produce a copy of the reconciliations for audit. During review and evaluation of the property records, a series of errors were identified as reported in Finding 2016-02.

A reconciliation effort was completed during the audit that identified a series of errors, including items classified as government furnished equipment that should have been classified as contractor acquired property (CAP) and erroneous property purchase amounts included in the property records. The final unreconciled difference after identifying errors in the property records is \$377, which is in question.

Criteria: Per BVSPC's Property Management Plan, [REDACTED]
[REDACTED]
[REDACTED]

Questioned costs: \$377

Effect: Assets purchased with Federal funds or furnished by the Government may be lost, stolen, damaged, destroyed, or improperly utilized without management's knowledge. Errors in property records may also go undetected.

Cause: BVSPC did not have adequate oversight by senior management to ensure that property management activities were being executed as required by BVSPC's procedures. Furthermore, BVSPC did not properly train personnel in the conduct of procedures related to property inventory.

Recommendation: We recommend that BVSPC either explain the \$377 unreconciled amount such that the reconciliation nets to \$0 or otherwise reimburse the Government \$377. We further recommend that BVSPC require those individuals who were involved in property administration under KHPP and who remain employed by BVSPC to undergo remedial training in order to reduce the likelihood of similar issues being observed in future USAID projects.

Finding 2016-04: Disposition Support Not Provided or Otherwise Inadequate

Material Weakness and Noncompliance

Condition: During our testing of 70 equipment and property items, we identified 18 instances in which BVSPC was unable to provide adequate supporting documentation to demonstrate that equipment and property was disposed of in accordance with the Contracting Officer's instructions.

Of the 18 items, errors are summarized as follows:

- Sample item 43 - A unique identifier or other such information was not documented and, therefore, the item in question could not be traced specifically to the support provided;
- Sample item 57 - The item in question was not referenced in the disposition support provided;
- Sample items 38 and 41 - Disposition support was not provided;
- Sample items 32, 33, 34, 36, 37, 40, 42, 44, 45, 52, 58, 60, 62, and 67 - BVSPC provided a copy of the disposition instructions; however, the intended recipient's [REDACTED] signature denoting receipt at the time was not included on the support. BVSPC requested a copy of the signed document from USAID. Due to USAID's not possessing the required support, USAID's Property Administrator in Kabul, Afghanistan, initiated contact with [REDACTED] on June 27, 2016, requesting a copy of the signed disposition instructions. USAID's correspondence with [REDACTED] included references to the applicable [REDACTED] contact with responsibility for inventorying the items having left the project and the inventory not having been completed. In the absence of contemporaneous supporting documentation showing that BVSPC turned over the items to [REDACTED] and Chemonics accepting them and a lack of individuals with first-hand knowledge of receipts, the [REDACTED] provided is not considered to be adequate audit evidence.

Criteria: FAR 52.245-1(b)(2) states: (2) The Contractor's responsibility extends from the initial acquisition and receipt of property, through stewardship, custody, and use until formally relieved of responsibility by authorized means, including delivery, consumption, expending, sale (as surplus property), or other disposition, or via a completed investigation, evaluation, and final determination for lost, stolen, damaged, or destroyed property. This requirement applies to all Government property under the Contractor's accountability, stewardship, possession or control, including its vendors or subcontractors (see paragraph (f)(1)(v) of this clause).

BVSPC's Property Management Plan states that [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Questioned costs: \$1,986

Effect: The effect that the lack of adequate documentation to support the disposition of PP&E records is a matter of reliability. The absence of these disposition documents may cause a reasonable person to question the PP&E balance in BVSPC's accounting records. This condition could cause a person that is relying on the PP&E balance in the accounting records to make bad decisions based upon their reliance on these balances.

Cause: There were written procedures in place; however, a variety of individuals were involved in property management and did not consistently implement the procedures. Management failed to detect the inconsistencies and errors.

Recommendation: We recommend that BVSPC either obtain physical evidence demonstrating that the property items were appropriately disposed of and that links the property items to the BVSPC financial and property records or otherwise reimburse the Government \$1,986.

(Continued)

Finding 2016-05: Evidence of Receipt Not Provided

Significant Deficiency and Noncompliance

Condition: During our testing of 70 equipment and property items, we noted that BVSPC did not provide adequate documentation to show that 10 items listed on the inventory were received by BVSPC. Of the 10 items, two were noted as contractor-acquired property and the remaining eight were identified government-furnished equipment. Due to the lack of detailed supporting documentation, the accuracy and completeness of the property records is also in question.

Criteria: The BVSPC KHPP Property Management Plan requires [REDACTED]
[REDACTED]

FAR 52.245-1 states that BVSPC shall retain documentation of receipt of Government property.

Questioned costs: None

Effect: The likelihood that the Government will be charged for items that were not received is increased.

Cause: There were written procedures in place; however, a variety of individuals were involved in property management and did not consistently implement the procedures. Management failed to detect the inconsistencies and errors.

Recommendation: We recommend that BVSPC design and implement a process to periodically review its property records for accuracy and adequacy of supporting documentation, including evidence of receipt.

Finding 2016-06: Lost, Damaged, Destroyed, and Stolen Items: Relief of Responsibility Not Provided

Significant Deficiency and Noncompliance

Condition: BVSPC did not provide supporting documentation indicating that a loss, damaged, destruction, and theft (LDDT) report was submitted to USAID for five of eight items tested. In addition, for six of eight items, evidence was not provided showing that USAID relieved BVSPC of responsibility for the items.

Criteria: Per FAR 52.245-1, “the Contractor shall investigate and promptly furnish a written narrative of all incidents of loss, theft, damage or destruction to the property administrator as soon as the facts become known or when requested by the Government.”

Pursuant to BVSPC’s Property Management Plan, property management personnel shall [REDACTED]

Questioned costs: \$355

Effect: The Government may not have been made aware of missing or damaged property items and may not have been reimbursed appropriately for property that was improperly managed.

Cause: BVSPC did not implement adequate processes to oversee property management matters.

Recommendation: We recommend that BVSPC complete and submit LDDT reports for the five items that were not previously reported to USAID. We also recommend that BVSPC request a ruling from USAID regarding BVSPC’s responsibility for the missing items and, if not relieved of responsibility, remit \$355 to the Government. BVSPC should also implement procedures to periodically assess property management efforts in the field.

Finding 2016-07: Subcontractor Suspension and Debarment Disclosures Not Obtained

Material Weakness and Noncompliance

Condition: We selected a sample of 40 procurements from a population of 319 for procurement testing. Of the 40 purchase orders that were selected, 22 exceeded \$30,000 and were, therefore, required to have vendor certifications or disclosures regarding the vendors' statuses as suspended, debarred, or proposed for debarment. None of the 22 procurements selected for testing had the required certifications or disclosures.

Criteria: Pursuant to FAR 52.209-6, BVSPC was to obtain a written disclosure from subcontractors receiving subcontracts or purchase orders expected to exceed \$30,000 regarding their status as entities that are suspended, debarred, or proposed for debarment.

Questioned costs: None

Effect: BVSPC may unknowingly enter into a contract with an organization that is excluded or proposed for exclusion.

Cause: BVSPC was unaware of the requirement at the time the procurements were awarded. BVSPC also did not have procedures in place that required staff to obtain the required disclosures.

Recommendation: We recommend that BVSPC modify its procurement procedures to communicate the FAR 52.209-6 requirement to procurement officials such that disclosures are obtained as required on future awards.

Finding 2016-08: Cost or Price Analysis Not Performed

Deficiency and Noncompliance

Condition: We tested 40 procurements and, out of 40 sample items tested, BVSPC did not complete cost and price analyses for two non-competitive procurements as discussed below:

- Purchase Order (PO) Number 12-2132 – A cost or price analysis was not performed for the selection of [REDACTED]. [REDACTED] provided rental cars, and the total PO value was \$9,840. A cost comparison was completed by BVSPC during the audit and provided to the auditor. The exercise compared the [REDACTED] costs to those of other vehicle rental costs in Afghanistan. The costs were considered to be reasonable.
- Purchase Order 12-2055 – With regard to [REDACTED], which provided mobile phone service to BVSPC, the total PO amount was \$49,701. \$34,473 in actual costs were incurred under the PO. Documentation to support the reasonableness of the costs incurred was not located or developed by management such that the full amount of the costs incurred are in question.

Criteria: BVSPC's Procurement Manual, Section 1.7.9.2, states that [REDACTED]. Section B.1 of the Procurement Manual goes on to state the following, [REDACTED].

FAR 31.201-2 states that a cost is allowable only when the cost is reasonable, allocable, follows the Cost Accounting Standards Board requirements or accounting principles generally accepted in the United States of America, complies with the terms of the contract, and is consistent with any other limitations contained in the commercial entity cost principles.

Questioned costs: \$34,473

Effect: The Government may have been overcharged for telecom costs. Regarding vehicle rental costs, in the absence of cost or price analyses being completed prior to making an award to subcontractors, the likelihood of unreasonable costs being passed through to the Government is elevated.

Cause: Internal procedures requiring completion of cost or price analyses were not followed. During management's review of the procurement files, the lack of cost or price analyses was not detected. For the telecom company's costs, management was unable to produce a cost comparison, but operates under the assumption that the costs charged by a regulated entity are reasonable.

Recommendation: We recommend that BVSPC either conduct a market analysis and provide documentation showing that the costs incurred for the mobile phone services were reasonable – in whole or in part - or otherwise reimburse the Government \$34,473. We further recommend that BVSPC issue a written memorandum to procurement staff regarding the corporate policy pertaining to conduct of cost or price analyses for noncompetitive procurements.

Finding 2016-09: Annual Report of Government Property

Significant Deficiency and Noncompliance

Condition: Per USAID requirements, the contracting company must submit an annual report on all government furnished property. Of two reports requested, BVSPC was unable to locate one report (2011) and provided a report (2012) that did not contain the required attestation or all of the required data (e.g., disposition information, value of property as of the last report, and a clear breakdown of acquisitions by contractor purchase, transfer from USAID, and transfer from others without reimbursement).

Criteria: AIDAR 752.245-70, *Government property – USAID reporting requirements*, requires that BVSPC submit an annual report on all non-expendable property in a form and manner acceptable to USAID in a form substantially consistent with that prescribed in the regulation, inclusive of the property inventory attestation.

The regulation also states that, “The term *Government property*, wherever it may appear in [AIDAR 752.245-70], shall mean Government-furnished property and non-expendable personal property title to which vests in the U.S. Government under this contract. Non-expendable property, for purposes of this contract, is defined as property which is complete in itself, does not lose its identity or become a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of more than \$500.”

Questioned costs: None

Effect: Failure to comply with the reporting requirement could result in USAID not having accurate and complete records available pertaining to its property and equipment that has been leased or otherwise provided to entities in the field.

Cause: BVSPC did not have a policy or procedure to direct and advise staff to complete the Annual Report of Government Property or to otherwise communicate the required contents of the report.

Recommendation: We recommend that BVSPC document and implement a procedure that requires property management personnel to complete annual reports of government property when the AIDAR 752.245-70 requirement is included within its Federal agreements. Further, BVSPC should complete a final report of government property that includes all required data elements and the required attestation. The report should then be submitted to USAID.

Finding 2016-10: Incorrect Application of Indirect Cost Rates

Deficiency and Noncompliance

Condition: During our testing of indirect cost charges, we noted that BVSPC utilized incorrect indirect cost rates in 39 of 40 reimbursement vouchers selected for testing. The result of the error was a calculated net under-billing of \$58,817.

Criteria: Section B.5 of BVSPC's contract with USAID states, "Pending establishment of revised provisional or final indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the" negotiated provisional or predetermined rates and the appropriate bases identified within the contract.

FAR 52.216-7(e), *Allowable Cost and Payment*, states, "Until final annual indirect cost rates are established, the Government shall reimburse the Contractor at billing rates established by the Contracting Officer or by an authorized representative (the cognizant auditor), subject to adjustment when the final rates are established. These billing rates –

- (1) Shall be the anticipated final rates; and
- (2) May be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment."

Questioned costs: None

Effect: BVSPC may improperly bill the Government by using non-current rates thereby resulting in under- or over-billings that go undetected by BVSPC.

Cause: BVSPC assumed that the revised negotiated provisional or final rates had to be changed via a formal modification to the contract prior to the rates being used for billing.

Recommendation: We recommend that BVSPC establish a monitoring process that includes periodic review of indirect cost rates used in billing to ensure that the most current rates are consistently being used.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Crowe reviewed five prior audit or assessment reports that are applicable to the Kandahar Helmand Power Project or that may otherwise be pertinent to the audit objectives prescribed by SIGAR. These included one compliance review of the KHPP contract, three audit reports issued by USAID Afghanistan, and one audit report issued by SIGAR. Following completion of our review, we conducted follow-up procedures on those matters that could have a direct and material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. These matters are summarized below and on the following pages.

Observation No. 1: Business and First-Class Travel

Report: USAID Audit Report F-306-13-001-P

Issue: Black & Veatch submitted biweekly invoices that included \$164,157 in questionable costs for business- and first-class travel in 18 of 33 invoices reviewed.

Status: BVSPC reimbursed the Government for the sustained portion of the finding. In addition, during our testing procedures, we did not identify additional business- or first-class travel expenses. This finding is not repeated.

Observation No. 2: Taxes Paid and Billed to the Government

Report: SIGAR Audit Report 13-8

Issue: BVSPC may have invoiced the Government for taxes that were improper or otherwise illegitimate based on Afghan law or agreements between the U.S. Government and the Government of Afghanistan.

Status: During our testing of costs charged to the contract, we did not identify any instances in which the taxes paid were improper or illegitimate. This finding is not repeated.

Observation No. 3: Noncompetitive Procurements

Report: USAID Audit Report F-306-15-007-N

Issue: BVSPC identified \$240,362 in questioned costs as a result of BVSPC's being unable to provide sufficient documentation to support an open competition process for certain purchase orders selected for testing.

Status: The criteria noted within the audit finding was not applicable to BVSPC. Therefore, we limited our follow-up procedures to determining if BVSPC complied with the competitive procurement requirements specified within its contract as appearing in FAR 52.244-5 and if BVSPC documented sole source justifications in a manner consistent with its corporate procurement policies. During our follow-up procedures, we did not identify any instances in which sole source justification forms were not completed and appropriately approved or in which competitive procedures were improperly bypassed.

We also noted that USAID did not sustain the questioned costs.

This finding is not repeated.

(Continued)

Observation No. 4: Due Diligence in Subcontractor Selection

Report: Compliance Review Report OAA-IP-2012-013

Issue: BVSPC did not conduct OFAC and UNSC 1267 screening.

Status: We tested BVSPC's established due diligence process, which included conducting searches of the Excluded Parties List System ("EPLS") and, subsequent to the EPLS being replaced, the System for Award Management ("SAM"). We noted that BVSPC implemented the due diligence checks appropriately. This finding is not repeated. We did, however, note a separate, but related matter, regarding BVSPC's not obtaining required certifications from vendors that must disclose, at the time of award, whether they are suspended, debarred, or proposed for debarment. See Finding 2016-07.

Observation No. 5: Subcontractor Monitoring

Report: Compliance Review Report OAA-IP-2012-013

Issue: BVSPC did not have a formal subcontractor monitoring process in place.

Status: During our internal control procedures, we noted that BVSPC has a procedure in place to monitor supplier performance. Further, BVSPC has a process in place to formally review deliverables and subcontractor invoices. These actions reflect BVSPC's formal subcontractor monitoring system. This finding is not repeated.

Observation No. 6: Disaster Recovery and Business Continuity Processes

Report: Compliance Review Report OAA-IP-2012-013

Issue: BVSPC did not have a disaster recovery or business continuity process in place.

Status: We requested a status update on corrective action from BVSPC. BVSPC provided a copy of the KHPP Withdrawal Plan demonstrating a formal disaster recovery process. However, we noted that the withdrawal plan does not address backup systems or steps to be taken in the event of fire, terrorist attacks, or natural disasters that may result in loss of physical documents. Corrective action taken is not considered to have been adequate with respect to this matter. This item has been reported to management within a letter dated November 2, 2016.

Observation No. 7: Internal Audits

Report: Compliance Review Report OAA-IP-2012-013

Issue: Internal audits were not performed.

Status: We requested a status update on corrective action from BVSPC. BVSPC indicated that audits were not conducted with respect to the KHPP contract. Corrective action taken is not considered to have been adequate with respect to this matter. This item has been reported to management within a letter dated November 2, 2016

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS

The following pages contain the text of management's responses. Attachments referred to within the letter have been provided directly to SIGAR.



██████████
BLACK & VEATCH SPECIAL PROJECTS CORP.
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November 21, 2016

Crowe Horwath LLP
1455 Pennsylvania Avenue, N.W., Suite 700
Washington, D.C. 20004-1008

Ladies and Gentlemen:

Please find below Black & Veatch Special Projects Corp.'s (BVSPC) response to the draft audit report that was forwarded on November 7, 2016, Subject: For Management Responses: BVSPC Draft SIGAR Report.

Finding 2016-01: Unreimbursable Transaction

BVSPC Response: SIGAR's draft audit report erroneously contends that the Government disbursed funds that were not otherwise payable to BVSPC and recommends the money be returned. In actuality, BVSPC invoiced USAID for the exact amount that the Government contractually agreed to pay for a completed project, which was \$13,474,281. Thereafter, BVSPC paid its subcontractor, ██████████, exactly what it was owed under its Subcontract. In so doing, BVSPC properly deducted liquidated damages that ██████████ owed it from the money due (i.e., amounts otherwise payable) ██████████ under its Subcontract. SIGAR mistakenly asserts that the Subcontract required BVSPC to pay the \$1,313,191 in its entirety to ██████████ and then run to the bank and collect the liquidated damages via a demand on ██████████ Bank Guaranty. There is no support for this position under the Prime Contract, the Subcontract or procurement law.

The draft audit report begins by asserting that BVSPC contracted with ██████████ to build the 110/20 kv Durai Junction Substation. That is not accurate. The report further indicates that "██████████ used a subcontractor, ██████████, in order to perform the work for the junction." That is likewise not correct. ██████████ had nothing to do with Durai Junction. On September 4, 2013, USAID provided written consent for BVSPC to modify the firm-fixed price Subcontract with ██████████ to build the Durai Junction. (Attachment 1).

The Subcontract Expressly Required Liquidated Damages Be Deducted From Retainage

Upon the successful completion of the Project, ██████████ appropriately invoiced BVSPC for \$1,313,191, which represented the 10% retainage that had been withheld by BVSPC under the terms of the Subcontract until construction was complete. (See Subcontract Section 00452, Payment Management). Upon receipt of the funds from USAID for this approved ██████████ invoice, BVSPC properly had the authority to then retain or deduct any payments it was owed from the amount owing to ██████████. Specifically, the Subcontract provides that BVSPC ██████████
██████████ Thus, the parties specifically contracted to avoid the precise scenario SIGAR argues should have been pursued. In other words, rather than make a payment to ██████████ and simultaneously seek other amounts as reimbursement from ██████████ under the Bank Guaranty or otherwise, BVSPC properly deducted liquidated damages, a sum to which it was entitled to retain or deduct, from amounts that were properly invoiced by ██████████

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Pursuant to the express terms of the Liquidated Damages clause, BVSPC was entitled to [REDACTED]. During performance of the Subcontract, a transmission tower arm failure negatively impacted the Project and [REDACTED] failed to meet a number of Subcontract milestones. This resulted in the assessment of liquidated damages in a contractually agreed upon amount of \$1,347,428.

The Subcontract explicitly evidences BVSPC and [REDACTED] agreement that [REDACTED]. As referenced in the draft audit report, FAR 52.216-7(b) permits reimbursable costs to be paid "in accordance with the terms and conditions of the subcontract." Moreover, the Subcontract permits the assessment of liquidated damages notwithstanding other backcharges for the transmission tower arm failure. [REDACTED]

[REDACTED] The subcontract also grants BVSPC the authority to withhold payment, stating:

[REDACTED]

[REDACTED]

The following key provision of the Liquidated Damages clause was apparently overlooked during the audit:

[REDACTED]

[REDACTED]

This contractual procedure was followed by the parties. As stated, BVSPC properly deducted \$1,313,191 in liquidated damages from the unpaid balance left in the Subcontract (i.e., the 10% retainage). As the amount of liquidated damages slightly exceeds the amount of unpaid balance, it is incumbent upon BVSPC to now invoice [REDACTED] for the excess amount. [REDACTED] hereafter has thirty (30) days after receipt of BVSPC's invoice to remit the balance of \$34,237 to BVSPC. If this occurs, then there is no breach of the Liquidated Damages clause of the Subcontract. The draft audit report fails to account for the Subcontract procedure and instead argues that BVSPC should have ignored this process and swept the Bank Guaranty. Any demand under the Guaranty, however, has to be [REDACTED]

[REDACTED]

Here, to sweep the Bank Guaranty before deducting the amount of liquidated damages from any unpaid balance would be ineffective and contrary to the Subcontract.

Finally, [REDACTED] retention invoice was properly submitted through BVSPC and paid by USAID. To return these funds to USAID would result in an improper windfall to the Government and damage BVSPC. The amount of Liquidated Damages recovered from [REDACTED] were not deducted as a penalty, but represent a reasonable amount to compensate BVSPC for [REDACTED] failure to perform the transmission lower arm work. As previously explained to SIGAR’s auditors, the following background information provides how the Liquidated Damages (“LD”) Settlement was determined, how [REDACTED] funded their LD assessment and the additional cost BVSPC incurred relative to [REDACTED] LD assessment.

BVSPC DJCN Incurred Costs Not Reimbursed by USAID

As background, [REDACTED] had a catastrophic failure with one of their towers which was eventually linked to poor workmanship and deficient tower material. As a result of the tower failure, USAID issued BVSPC a cure notice which resulted in BVSPC issuing [REDACTED] a cure notice both of which required a corrective action plan. BVSPC and [REDACTED] immediately implemented a corrective action plan that resulted in new and rebuilt towers but also resulted in BVSPC incurring approximately \$2.5M of non-billable cost of which USAID eventually agreed to reimburse \$1.2M leaving approximately \$1.3M of incurred cost as non-billable.

TABLE 1

DJCN [REDACTED] Related Costs	Amount BVSPC Incurred	Amount Billed to USAID	Amount USAID Paid BVSPC	Amount USAID did not Pay BVSPC
BVSPC Operating Costs for DJCN 3/13-7/13 (timeframe of delay due to failure)	\$1,923,449	\$1,923,449	\$1,278,965	\$644,483
BVSPC “Tiger Team” Costs Related to [REDACTED] Cure Notice Corrective Action	\$551,275	\$0	\$0	\$551,275
TOTAL	\$2,474,724	\$1,923,449	\$1,278,965	\$1,195,758

[REDACTED] Subcontract and LDs

Additionally, the tower failure caused [REDACTED] to miss multiple contractual milestones which triggered implementation of a contractually agreed LD assessment of \$1.3M that was recouped by withholding payment from [REDACTED] last invoice. BVSPC chose to withhold payment from [REDACTED] on their last invoice in order to ensure payment of the contractual LD assessment and to reduce BVSPC risk. BVSPC billed USAID the complete subcontract value because the substation was completed and accepted by USAID, as required by the Prime Agreement.



TABLE 2

SUBCONTRACT	A Amount Billed BVSPC	B Amount BVSPC Paid (2% taxes)	Amount BVSPC Billed USAID	Amount USAID Paid BVSPC
Total Subcontract (less retention)	\$12,161,090	\$12,163,265	\$12,161,090	\$12,161,090
FINAL Retention Invoice	\$1,313,191	\$26,220	\$1,313,191	\$1,313,191
TOTAL	\$13,474,281	\$12,189,486	\$13,474,281	\$13,474,281

The collection of the LDs was a contractual (see [REDACTED] subcontract Supplemental Terms and Conditions, Article 00551.7) transaction between BVSPC and [REDACTED] with no involvement from USAID. The contract allows assessment up to 10% of contract value (\$1,347,428). See the attached letter, which will address the amount derived below (Attachment 2).

TABLE 3

LIQUIDATED DAMAGES	Amount	
DJCN Costs BVSPC Incurred and Not Paid by USAID	\$1,195,758	See last column in DJCN table above
LD Assessment Recouped from Final Retention Invoice	\$1,284,795	See A-B difference in subcontract table

SIGAR previously received the below documents:

1. Letter to USAID dated January 30, 2014 (this outlines amounts in table 1 above)
2. Summary of BVSPC operating costs for DJCN 3/13-7/13 (see table 1 above)
3. Summary of "tiger team" incurred costs (see table 1 above)
4. Letter to [REDACTED] dated June 5, 2014 (this outlines amounts in table 3 above)

For all the foregoing, BVSPC respectfully disagrees with the findings of the draft audit report and the questioned costs of \$1,313,191.

Finding 2016-02: Incomplete or Inaccurate Property Records

BVSPC Response: BVSPC agrees that the likelihood of items being lost, stolen, damaged or destroyed without the company's knowledge is increased if procedures are not followed and records maintained are not accurate. BVSPC has conducted a complete review of the property records in hand and corrected it to the degree possible during the audit process. A further refinement is not possible at this point because BVSPC has exhausted the file review and no longer has access to the property to supplement the records. BVSPC recognizes that the property records for this program could have been improved and additional training and close adherence to procedures will be employed on future projects in order to minimize inaccurate records and reporting.

Finding 2016-03: Reconciliation of Inventory to Financial Records Not Performed

BVSPC Response: BVSPC agrees that a documented reconciliation between the property and financial records was not maintained during performance of the KHPP program. As the auditors indicated, BVSPC did reconcile the records during the audit which resulted in an unreconciled variance of \$377. B&V would need to perform an in-depth reconciliation of all records to identify this discrepancy of \$377. It is not cost effective to undergo such a reconciliation at this point considering the small amount of questioned cost. BVSPC recognizes that the inventory to financial records association could have been improved and additional training and close adherence to procedures will be employed on future projects to identify, reduce or eliminate differences.

Finding 2016-04: Disposition Support Not Provided Or Otherwise Inadequate

BVSPC Response: BVSPC agrees with the conditions cited in the finding regarding documentation to prove disposition on the items totaling \$1,986. Note that documentation was provided for all property of significant value and the items in question were relatively low value. BVSPC no longer has access to the recipient or site to obtain any potential additional information demonstrating physical evidence of disposal. BVSPC will strive to obtain all needed disposition information of items of all value on future work to avoid this issue.

Finding 2016-05: Evidence of Receipt Not Provided

BVSPC Response: Although BVSPC agrees that documentation proving receipt was not provided for the 10 questioned items, it is clear that they were received because proven disposition paperwork was provided. By virtue of having the property to turn over, it had to be received by BVSPC prior to the turnover. To ensure this issue does not occur again on future projects, BVSPC will integrate periodic reviews of property records to ensure all documentation is maintained.

Finding 2016-06: Lost, Damaged, Destroyed, and Stolen Items

BVSPC Response: BVSPC agrees that LDDT reports could not be located for the items questioned. If USAID believes it is necessary and material, BVSPC can and will (upon request) prepare LDDT reports for those 5 items totaling \$355 based on information presented in the property report. In addition, BVSPC will audit future projects to periodically assess property management efforts to ensure all LDDT procedures are followed.

Finding 2016-07: Written Subcontractor Disclosures

BVSPC Response: BVSPC has modified the procurement procedures and communicated FAR 52.209-6 requirement to procurement professionals. The procurement update and communication were completed in 2015 based on results of a 2015 Contractor Purchasing System Review (CPSR) which identified the same deficiency. BVSPC's correction of the deficiency resulted in ACO (Administrative Contracting Officer) approval of the BVSPC Procurement System effective 1 October 2015. A copy of that approval can be provided upon request.

Finding 2016-08: Cost or Price Analyses

BVSPC Response: BVSPC agrees written documentation substantiating market research completed by BVSPC IT group in Kandahar during 2012 cannot be located. However, documentation in the BVSPC files for period of performance during 2012 indicates there were 4 cell phone carriers and [REDACTED] was the only company that was able to provide consistent/reliable commercial GSM licensed cell phone coverage in the Kandahar area.

Further, attached Defense Contract Audit Agency (DCAA) memorandum for Regional Directors regarding Unallowable Costs dated January 7, 2015 includes references from Armed Service Board of Contract Appeals (ASBCA) case *Rumsfeld v. General Dynamics Corp*, 365 F.3d 1380 (Attachment 3). The references state "The Government should not assess a penalty where there are reasonable differences of opinion about the allowability of cost." BVSPC subcontracted with [REDACTED] paid commercial rates for services rendered and therefore understands the subcontract cost of \$34,473 should not be questioned in its entirety.

BVSPC also agrees with SIGAR recommendation to issue a written memorandum to procurement staff regarding the corporate policy pertaining to conduct of cost or price analyses for noncompetitive procurements.

Finding 2016-09: Annual Report of Government Property

BVSPC Response: BVSPC agrees with the condition cited in this finding. However, it should be noted that BVSPC did provide an annual report that generally provided the required information but the data was not presented in the format shown in the AIDAR and it did not include the attestation. Note that the AIDAR indicated the annual report was to be submitted "in a form and manner acceptable to USAID substantially as follows". Therefore, the example form the AIDAR includes is not required in the exact format indicated. In addition, USAID accepted the form as submitted; thus, it was believed to be acceptable.

The report provided by BVSPC did not include disposition information because, at that time, property had not been disposed. The value of the property as of the last report was easily determined via the information provided. The acquisition breakdown for CAP (Contractor Acquired Property) was provided via PO (Purchase Order), model, specs, etc. The transfers from USAID were covered in the PO column. The property transferred from others was also indicated in the PO column. Property transferred from others was always "without reimbursement"; BVSPC did not note that on the report.

Project property personnel are required to execute their work in accordance with the terms of the contract. To ensure all contract terms are complied with, the future project execution plans will explicitly identify each reporting requirement to highlight the reporting and related frequency. If USAID does believe it is necessary and does request for BVSPC to now submit the information per the recommendation, a final report can and will be created based on the current property report using the form included in AIDAR 752.245-70.

Finding 2016-10: Incorrect Application of Indirect Cost Rates

BVSPC Response: BVSPC does not concur with the statement that the Government may have been improperly billed by using non-current indirect rates.

Section B.5 of the KHPP Contract cited the rates that were to be used for billings to/reimbursement from USAID pending the establishment of revised rates. Thus, BVSPC invoices to USAID were calculated using the rates that were within the contract at the time the bill was prepared. BVSPC could not/did not use the ACO (Administrative Contracting Officer) approved rates for billing until they were placed into contract via a modification. Once modifications were received "rate rebills" were processed. (Note the Administrative Contracting Office for BVSPC is DCMA (Defense Contract Management Agency))

It was BVSPC's understanding and established practice that when indirect billing rates are cited within a contract, notification of a change to the rates is provided to the Contracting Officer with a request that the updated rates be incorporated into the contract. USAID followed that practice by providing modifications to update the contract when requested; and, never indicated/responded that practice/method was not necessary. BVSPC also interprets the requirement in B.6(c) "...Any changes in classifying or allocating indirect costs require the prior written approval of the Contracting Officer" to include changes in the rates to be billed as that is an allocation of BVSPC's costs, as stated in the contract. Additionally, this practice was utilized to demonstrate BVSPC stayed within the ceiling rates stipulated in the contract.

BVSPC complied with the billing rates clause regarding preventing overbilling and underpayment by submitting rate rebills once the rates were placed into the Contract.

However, if the Government agrees with the auditor's finding, BVSPC has no issues with changing our practice to no longer request a Contract Modification/Contracting Officer approval when the billing rates are updated. Rather, BVSPC will simply issue rate rebill adjustments to the client(s) once ACO approval is received. BVSPC's goal is to bill in accordance with the contract requirements.

Note that the cited Attachments are included as attachments to the email that forwarded this document.

If you have questions regarding the responses from BVSPC, please contact [REDACTED]

Very truly yours,

BLACK & VEATCH SPECIAL PROJECTS CORP.

[REDACTED]
Managing Director of Shared Services
Associate Vice President, Black & Veatch Special Projects

Attachments:

- Attachment 1: USAID Written Consent Letter to BVSPC dated September 4, 2013
- Attachment 2: BVSPC Letter to [REDACTED] dated June 5, 2014
- Attachment 3: DCAA Memorandum for Regional Directors dated January 7, 2015

cc: [REDACTED]

APPENDIX B: AUDITOR'S REBUTTAL

Crowe Horwath LLP ("Crowe" or "we" or "us") has reviewed the letter dated November 21, 2016, containing Black & Veatch Special Projects Corporation's ("BVSPC" or "the auditee") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with the facts presented within the condition or otherwise with a recommendation. In those instances where management has agreed with the finding, as presented, no rebuttal has been provided. Crowe did not deem it necessary to modify any of the findings following our review of management's comments.

Finding 2016-01

We have reviewed management's comments and concluded that a modification to the text of the condition was appropriate; however, the noncompliance cited was not alleviated or resolved and, as such, the questioned costs and noncompliance matters noted remain unchanged.

Management disagreed with the finding primarily because 1) BVSPC's subcontract required that liquidated damages be deducted from the retainage; and 2) BVSPC chose to withhold payment from [REDACTED] the last invoice to reduce BVSPC's risk and to ensure payment of the liquidated damages assessed. While we understand and have an appreciation for the terms of BVSPC's contract and the company's desire to mitigate risk to which it is exposed by virtue of its subcontractors' performance issues, the explanations and items presented by BVSPC do not result in BVSPC's complying with requirements presented in FAR 52.216-7. Specifically, we note the following:

1. BVSPC did not disagree with the primary conditions within the finding – those conditions being a) that BVSPC did not pay the invoiced amount of \$1,313,191 and yet obtained reimbursement from USAID for the amount and b) that BVSPC credited the liquidated damages amount against the amount payable to [REDACTED]
2. FAR 52.216-7(b) indicates that reimbursable costs, applicable to this scenario,² includes **only**:
 - (i) those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract;
 - (ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for -
 - (A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, **provided payments determined due will be made** -
 - (1) In accordance with the terms and conditions of a subcontract or invoice; and
 - (2) Ordinarily within 30 days of the submission of the Contractor's payment request to the Government.

Bolded terms reflect emphasis that has been added by the auditor.

The regulation does not permit costs that were or will not be paid to be classified as reimbursable costs. Accordingly, the \$1,313,191 was ineligible for reimbursement.

Further, FAR 52.216-7 restricts payment to those costs which are allowable. Pursuant to the commercial cost principles codified at 48 CFR Part 31, allowable costs recorded to an award must be net of any credits related to transaction that accrues to the contractor. In this scenario, the liquidated damages were applied as a credit, accrued to BVSPC, and were not netted against the amount charged to USAID. Therefore, the portion of the [REDACTED] final invoice that was satisfied using credits (\$1,284,795 per the management response) is considered to be unallowable.

² Crowe has omitted portions of FAR 52.216-7(b) that are not pertinent to the finding, namely portions applicable to materials issued from inventory, direct labor, direct travel, in-house costs, and indirect costs.

Costs that were not recorded to the award and presented on the Special Purpose Financial Statement were not subject to Crowe's audit procedures. Therefore, we offer no position regarding those costs denoted by BVSPC as having been incurred by BVSPC yet unpaid by USAID.

We also understand that there were certain background elements included as context within the finding that may have been inaccurately presented, as noted in management's response. We have modified the finding accordingly noting that management's comments did not alter or otherwise change the noncompliance noted.

Finding 2016-10

BVSPC disagreed with the *effect* documented within the finding. Specifically, BVSPC indicated that the company processes rebills following modification of its contract to incorporate revised negotiated indirect cost rates. Therefore, it is management's position that the Government may not have been improperly billed by using non-current indirect rates.

Whereas the applicable billings submitted to the Government did not reflect the current indirect cost rates, the amounts invoiced were inaccurate. Inaccurate billings would be considered improper. Therefore, we have not modified the finding's *effect* as originally presented.

Management also reiterated the *cause* included within the finding noting that it was BVSPC's understanding and established practice [REDACTED]. Management also indicated that BVSPC interpreted the contract's requirement to notify the Contracting Officer of changes in classifying or allocating indirect costs to include changes in the indirect cost rates.

Given that the contract's terms expressly indicate that the rates included in the agreement are in effect [REDACTED] and no evidence was provided to indicate that BVSPC's methodology for classifying or allocating indirect costs applicable to the contract changed, the revised provisional or final indirect costs rates were expected to be implemented upon BVSPC's receipt of the formal rate agreements. The finding has not been modified as a result of management's additional comments regarding the *cause*.

APPENDIX C: PROPERTY ITEMS WITH INADEQUATE DISPOSITION SUPPORT

The following table includes the detailed information for each sample item referenced in finding 2016-04. The information is shown as presented in the BVSPC equipment and property listing and – with the exception of the inserted “Totals” line and adjustment to the font type and size – has been unedited by Crowe Horwath.

Sample Item #	GP_NUM	NOMENCLATURE	MANUFACTURE	SERIAL_NUM	CAP / GFE	QTY	ACQ_COST	CURRENT VALUE	PO_NUM	PO_DATE
32	G-0888	SMALL BLACK CABINET			CAP	1	██████	\$24.00		
33	16491	UNINTERRUPTIBLE POWER SUPPLY	APC		GFE	1	██████	\$220.80	GFE TRANSFER FROM AIRP TO KHHP TO-27-02	
34	KHP-1280	WEIGHT TREE FOR PLATES			GFE	1	██████	\$20.00	GFE TRANSFER FROM AIRP TO# 08	
36	G-0915	CHAIR, OFFICE			CAP	1	██████	\$98.72	11-2303-042246	
37	13847	SMALL CABINET			GFE	1	██████	\$30.00	GFE TRANSFER FROM AIRP	
38	G-0987	TELEVISION	TOSHIBA	██████	CAP	1	██████	\$198.40	PETTY CASH# KHPP-3602-KDR	
40	G-0881	CHAIR, OFFICE			CAP	1	██████	\$133.70	PO 11-2047-001 / PR 330-120124	
41	G-1901U	IPAD 2 WI-FI 16GB BLACK	APPLE	██████████████	GFE	1	██████		PO 11-2004	
42	15465	AIR CONDITIONER, SPLIT UNIT	SAMSUNG		GFE	1	██████	\$294.00	GFE TRANSFER FROM AIRP TO KHHP TO-27-02	

Sample Item #	GP_NUM	NOMENCLATURE	MANUFACTURE	SERIAL_NUM	CAP / GFE	QTY	ACQ_COST	CURRENT VALUE	PO_NUM	PO_DATE
43		CHAIR			GFE	1	████████	\$26.40	GFE TRANSFER FROM AIRP	
44	OF-3052	SHELF-LEVEL 2			GFE	1	████████	\$90.00	GFE TRANSFER FROM AIRP TO# 08	
45	G-1607	RADIO, HANDHELD	MOTOROLA	████████	CAP	1	████████	\$291.36	PO12-2507	4-Dec-12
52	009951	LAMP, FLOOR			GFE	1	████████		GFE TRANSFER FROM AIRP TO# 0246-11	
57	016915	HANDHELD 2 WAY RADIO	MOTOROLA	████████	GFE	1	████████	\$207.00	GFE TRANSFER FROM IRD TO BV TO-04-00595-2011	
58	BEI-002-B	DRESSER			GFE	1	████████		GFE TRANSFER FROM AIRP	
60	G-1967	DRILL CORDLESS	DEWALT	██████	CAP	1	████████	\$352.00	KHPP-6688-KDR	24-Apr-13
62	12911	SOFA, DOUBLE SEATER			GFE	1	████████		GFE TRANSFER FROM AIRP TO# 0246-11	

Sample Item #	GP_NUM	NOMENCLATURE	MANUFACTURE	SERIAL_NUM	CAP / GFE	QTY	ACQ_COST	CURRENT VALUE	PO_NUM	PO_DATE
67	10850	BICYCLE			GFE	1	████████		GFE TRANSFER FROM AIRP	
TOTALS							████████	\$1,986		

APPENDIX E: PHOTOGRAPHS OF THE KAJAKI DAM AND OTHER LOCATIONS OF PROJECT-FUNDED ACTIVITIES



The photograph above is a depiction of the Kajaki Dam, which was rebuilt under CLIN 5. The photograph above was taken by Horwath MAK, Crowe Horwath LLP's Afghanistan affiliate, during in-country observation and inspection activities pertaining to the audit of BVSPC's Special Purpose Financial Statement.

(Continued)



The photograph above of the Kajaki Dam, which was rebuilt under CLIN 5, was taken by Horwath MAK, Crowe Horwath LLP's Afghanistan affiliate, during in-country observation and inspection activities pertaining to the audit of BVSPC's Special Purpose Financial Statement.

(Continued)



The photograph above is of the outside of the Shorandam Industrial Park Diesel Power Plant in Kandahar. Activities at the SIPD were funded under CLIN 4. The photograph was taken by Horwath MAK, Crowe Horwath LLP's Afghanistan affiliate, during in-country observation and inspection activities pertaining to the audit of BVSPC's Special Purpose Financial Statement.

(Continued)



The photograph above is of the outside of the Shorandam Industrial Park Diesel Power Plant in Kandahar. Activities at the SIPD were funded under CLIN 4. The photograph was taken by Horwath MAK, Crowe Horwath LLP's Afghanistan affiliate, during in-country observation and inspection activities pertaining to the audit of BVSPC's Special Purpose Financial Statement.

(Continued)



The photograph above is of the Durai Substation, which was rebuilt under the scope of CLIN 2. The photograph was taken by Horwath MAK, Crowe Horwath LLP's Afghanistan affiliate, during in-country observation and inspection activities pertaining to the audit of BVSPC's Special Purpose Financial Statement.



The photograph above is of the Durai Substation, which was rebuilt under the scope of CLIN 2. The photograph was taken by Horwath MAK, Crowe Horwath LLP's Afghanistan affiliate, during in-country observation and inspection activities pertaining to the audit of BVSPC's Special Purpose Financial Statement.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

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

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

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

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

Public Affairs

Public Affairs Officer

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