



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/AFGHANISTAN'S KANDAHAR HELMAND POWER PROJECT

AUDIT REPORT NO. F-306-13-001-P
SEPTEMBER 25, 2013

KABUL, AFGHANISTAN



Office of Inspector General

September 25, 2013

MEMORANDUM

TO: USAID/Afghanistan Mission Director, William Hammink

FROM: USAID/OIG Afghanistan Director, James C. Charlifue /s/

SUBJECT: Audit of USAID/Afghanistan's Kandahar Helmand Power Project
(Report No. F-306-13-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments on the audit recommendations and have included those comments in Appendix II.

The report contains three recommendations to help USAID/Afghanistan improve its management and oversight of the Kandahar Helmand Power Project. Based on management comments on the draft report, management decisions have been reached on all recommendations. Please provide the Audit Performance and Compliance Division with the necessary documentation to achieve final actions on the recommendations when available.

I thank you for the cooperation and courtesy extended to us during this audit.

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Abbreviations

The following abbreviations appear in this report:

ADS	Automated Directives System
CLIN	contract line item number
CFR	Code of Federal Regulations
COR	contracting officer's representative
DABS	Da Afghanistan Breshna Sherkat
EQUALS	Engineering, Quality Assurance, and Logistical Support
FAR	Federal Acquisition Regulation
IEE	initial environmental examination
IRD	International Relief and Development
OIG	Office of Inspector General
PMP	performance management plan
SEPS	South East Power System

SUMMARY OF RESULTS

In 2010 USAID/Afghanistan joined forces with the country's national electrical power company, Da Afghanistan Breshna Sherkat (DABS), the U.S. Army Corps of Engineers, U.S. Forces-Afghanistan, and Regional Commands South and Southwest to develop a plan for improving the electric supply in the southern provinces of Kandahar and Helmand. According to some estimates, they are home to about 2 million residents—some 7 percent of the nation's population. Kandahar city is the country's second largest and serves as a center for education, health care, manufacturing, and transportation. Mission officials said that providing reliable, affordable electrical power to the provinces played a crucial role in increasing economic growth and stability, thereby counteracting insurgents.

On December 9, 2010, USAID/Afghanistan awarded a \$266 million contract to Black & Veatch Special Projects Corp. to support the Kandahar Power Initiative, later renamed Kandahar Helmand Power Project. It was designed to increase the supply, quantity, and distribution of electrical power as part of a larger national program to improve the South East Power System (SEPS) and connect it with other electrical grids in the country.

When the mission awarded the contract, the project had six integrated components:

1. Improve Kandahar's power distribution system.
2. Rebuild the Durai Junction substation to better isolate gaps in SEPS and prevent systemwide disturbances.
3. Construct and operate a secure regional camp to support the other components of the project.
4. Provide transportation, installation, operation, and maintenance to the Kandahar Industrial Park Diesel Power Plant¹ outside Kandahar city.
5. Rebuild the Kajaki Dam substation and local distribution system.
6. Install and commission a new turbine generator, Kajaki Unit 2, at the Kajaki Dam Hydropower Plant in Helmand Province.

The mission faced various challenges in completing the project as originally planned, and some were out of the mission's control. About the same time the award was made, the Afghan Government and the NATO-led International Security Assistance Force agreed that NATO troops would leave the country completely by 2014. The resulting transition changed strategic priorities that affected the project's scope. In addition, security threats that plagued previous infrastructure projects also hampered the progress of the Kandahar Helmand project.

As part of the transition, the U.S. Government agreed in January 2013 to transfer Component 6 to the Afghan Government, at the request of President Hamid Karzai. The United States would provide funding for the activity, which DABS would manage.

¹ The name was changed to Shorandam Industrial Park Diesel Power Plant in early 2011.

Mission officials also deleted some activities and revised others in Component 1. They cancelled the construction of a new Kandahar East substation and a power transmission line that would have run to the Kandahar Breshna Kot substation. Revised subcomponents were refurbishing the Kandahar city distribution system and replacing diesel generators at the Kandahar Breshna Kot substation.

The mission made these changes for three reasons. First, officials with the International Security Assistance Force's Regional Command South said a diesel fuel power plant at Kandahar East was no longer a priority since diesel fuel was costly and not a sustainable or long-term fuel source for the province. Second, the projected costs of constructing Kandahar East were escalating fast, primarily because of projected security costs at the site and increased construction demand in the area. Third, Kandahar East was more aligned with the objectives of another project being undertaken by USAID and DABS to connect SEPS to the Northeast Power System, mission officials said, and was not essential to the Kandahar Helmand project.

In April 2013 mission officials said that despite obstacles and changes in priorities that were not within the mission's control, the project made some significant achievements, listed below.

- It constructed two power plants at Shorandam Industrial Park and Breshna Kot, increasing total installed generation capacity in Kandahar city by 50 percent (to 16 megawatts).
- It constructed two substations at Durai Junction and Breshna Kot.
- It successfully solicited the installation of Kajaki Unit 2 to regional firms (two firms were sourced and evaluated before DABS took over managing the project).
- It established a camp at Kajaki.
- It completed a detailed assessment and inventory of Unit 2 parts stored at Kajaki and ordered long-lead procurements² for the unit.
- It upgraded a medium-voltage system in Kandahar city and trained an unskilled DABS workforce.

USAID's Office of Inspector General (OIG), Afghanistan Country Office, conducted this audit to assess the mission's project oversight, compliance with environmental requirements, and sustainability planning. We found room for improvement in all areas, particularly in planning. Key processes and personnel that should have been in place when the project began were not. While the mission took corrective action during the audit that addressed some of our findings, it can strengthen the project's future impact by addressing these problems.

- USAID/Afghanistan had not completed a plan for sustaining the benefits derived from the project (page 4).
- USAID/Afghanistan performed environmental monitoring late (page 5). The first monitoring was conducted almost 2 years after the project began.

² Procurement of equipment with long delivery times and thus a potentially significant effect on the project completion schedule.

- USAID/Afghanistan was not able to track implementation and financial progress adequately (page 7).
- USAID/Afghanistan's review of contractor invoices was not sufficient at the beginning of the project (page 8). Black & Veatch employees charged for first- and business-class travel.
- USAID/Afghanistan did not have a complete system in place for managing performance during the first year (page 10). The performance management plan (PMP) was late, and Black & Veatch did not give enough support to the third-party monitor.

The report recommends that USAID/Afghanistan:

1. Complete and implement a written plan that outlines how the project's benefits will be sustained (page 5).
2. Ascertain and document Black & Veatch's compliance with environmental requirements (page 7).
3. Determine the allowability and recover, as appropriate, questioned costs of \$164,157 for first- and business-class travel (page 9).

Detailed findings appear in the following section. A description of the audit's scope and methodology is in Appendix I. The mission's comments on the draft appear in Appendix II. Our evaluation of USAID/Afghanistan's management comments is on page 12.

AUDIT FINDINGS

Sustainability Plan Was Not Fully Developed

The Presidential Policy Directive on Global Development, *Leading Through Civilian Power: the First Quadrennial Diplomacy and Development Review*, and *USAID Policy Framework 2011–2015* emphasize sustainability as a critical element in development. The *Review* states that USAID projects should include the elements of sustainability considered essential to achieve the project's purpose. According to the policy framework, sustainability is achieved when host-country partners and beneficiaries are empowered, take operational and financial responsibility for development projects, and are able to operate and maintain project results and impacts after the Agency's funding ends. During planning, consideration of sustainability requirements gives a mission an opportunity to identify how sustainability objectives will be integrated into the entire project, and how benefits and results could continue when the project is over.

The USAID Automated Directives System (ADS) Chapter 201, "Planning," (2003) states that one of the purposes of planning was to identify "longer term results expected from the use of foreign assistance resources and the impact these results are expected to have." ADS cites two guidance documents pertaining to sustainability. "USAID's Strategy for Sustainable Development: An Overview" states that the operational approach to development programs aims at building indigenous institutions that involve the citizens and encourage accountability. Accordingly, the "Strategic Plan Checklist" asks if a sustainability plan will be provided for institutions and processes after assistance ends.

The mission said that it started planning for sustainability in 2012. However, it did not provide documentation of that to the audit team. Not documenting what would be necessary to maintain the project's assets after the mission transferred them to the Afghan Government could be especially problematic considering the reduced U.S. presence in Afghanistan after 2014 and the number of challenges that could affect the project's sustainability.

The first challenge is security. The installation and commissioning of Kajaki Unit 2 was also a deliverable under two previous USAID projects. However, security concerns at the Kajaki Dam site prevented this work from being done. The subcontractor responsible for installing the turbine there said kidnapping threats prompted the company to evacuate workers, and the project was closed out early.

In response to this concern, mission officials said the project's goal was to provide reliable power that would spur economic growth, which in turn, would promote stability and strengthen local and regional governments. Therefore, they said, the host government had plenty of incentives to provide the necessary security. The officials added that transferring complex, valuable assets to host governments always involves risk and uncertainty, but is a key step in achieving sustainability and is consistent with USAID priorities.

Other challenges pertain to financial viability. Mission officials said because DABS currently does not have adequate cash flow to keep the plants operating full time, it operates them on a

limited basis to respond to peak demand until users are willing and able to pay the market rate for diesel power on a full-time basis. Moreover, the cost of diesel fuel and system losses³ of 60 percent contribute to financial risks. A mission official said that repairs completed recently by DABS will reduce system losses. In addition, contracts managed by DABS focusing on building capacity and improving commercial performance will address financial sustainability.

The elements of sustainability are identified usually during the design phase. However, the requirements the mission has in place now are more detailed than those it had when designing the project. For example, a sustainability analysis during planning is required for each project.

Having a high-profile project like this one not live up to expectations could undermine the larger goals of strengthening regional governments and promoting economic growth to combat counterinsurgency in the region. Therefore, to make sure that sustainability is addressed, we make the following recommendation.

Recommendation 1. *We recommend that USAID/Afghanistan complete and implement a plan for sustaining the benefits derived from the Kandahar Helmand Power Project.*

Environmental Compliance Monitoring Was Performed Late

Title 22 of the Code of Federal Regulations, Part 216, “Environmental Procedures” (22 CFR 216) describes the environmental procedures that USAID must follow for all of its programs, projects, and activities.

In accordance with ADS 204, “Environmental Procedures,” USAID must be sure that requirements of 22 CFR 216 are considered in project design and implementation. In fact, ADS 204.2.c, “Primary Responsibilities,” states that assistance objective teams, activity managers, and contracting officer’s representatives (CORs) are responsible for ensuring full compliance with 22 CFR 216. USAID/Afghanistan’s Mission Order 204.04, “Mission Implementation of USAID Environmental Policies and Procedures,” contains similar requirements. Additionally ADS 202.3.6.1, “Assessing Performance of Contractors and Recipients,” requires the COR to ensure that the implementing partner is operating according to the terms of the contract.

Until February 2013, Section C.4, Subsection 1, “Environmental Assessment,” of Black & Veatch’s contract⁴ required it to:

- Minimize pollution and other environmental damage in accordance with U.S. and Afghan laws.
- Develop and submit a compliance documentation schedule and environmental guidelines designed to identify potentially negative environmental impacts and measures to mitigate adverse impact.

³ System losses are the total of technical and nontechnical losses. Technical losses occur in the transmission or distribution of energy. Nontechnical losses result, for example, from theft or nonpayment by customers.

⁴ This section was superseded by a contract modification on February 14, 2013.

- Make sure the project is designed to avoid or mitigate negative environmental impacts and that mitigation measures are incorporated in the planning and design phases.

However, the mission did not have the personnel in place at the beginning to confirm that Black & Veatch was carrying out activities with minimal pollution and environmental damage. During the project's first 18 months, the mission did not conduct any documented environmental compliance monitoring. In fact, the first environmental monitoring activity was not completed until October 2012—almost 2 years after the project began.

From inception in December 2010 to mid-2011, the project had five CORs. The staffing situation then stabilized, and the same COR has been in place since May 2011. In August 2011 the mission asked International Relief and Development (IRD) to perform environmental compliance monitoring; IRD already had a contract to provide quality assurance of infrastructure projects in the country (also discussed in finding on page 10). Finally, in the fall of 2012, the mission issued a new mission order on environmental compliance and brought in two permanent environmental officers.

Other factors contributed to the late start. Mission officials said Black & Veatch was late in bringing environmental personnel on board, which may have affected reporting on mitigation and compliance activities. Moreover, there was lack of clarity on who was responsible for conducting initial environmental examinations⁵ (IEEs) because of what mission officials described as ambiguous language in Black & Veatch's original contract. Conducting an IEE is an inherently governmental function.⁶ However, because the contract listed IEEs as "deliverables," Black & Veatch expended resources to produce them also. The contractor submitted what it called a draft IEE to the mission for review in December 2011. Black & Veatch continued to work on IEEs as recently as September 2012. Several months later, the mission rectified the situation by modifying the contract in February 2013 to remove IEEs as deliverables.

Mission officials said the IEE in place at the start of the project identified ten areas that required actions to mitigate detrimental effects of project activities. In year 1, they explained, nearly all activity was limited to Shorandam Industrial Park (Component 4), Kajaki Unit 2 (Component 6), and Durai Junction (Component 2) and that none of the work at these sites fell under the ten areas.

The IEE did not specify separate mitigation measures for individual components or sites. These measures included such actions as transporting and disposing of solid wastes in an environmentally sound manner; properly using and storing hazardous materials; and organizing work to minimize noise, dust, and diesel exhaust.

According to the IEE, the environmental impacts from the project were not significant because some of the construction sites were already altered during earlier projects. Nevertheless, the lack of monitoring during the first 18 months incurred risks because the mission may not have

⁵ An IEE is carried out during program design normally to identify potentially adverse environmental effects of the program could have; an amended IEE may be prepared later if necessary (like for a change in scope).

⁶ An "inherently governmental function" is one that, as a matter of federal law and policy, must be performed by government employees. Under FAR 7.503(a), "Contracts shall not be used for the performance of inherently governmental functions."

been fully prepared to detect and respond to unanticipated detrimental environmental effects if its primary contractor and subcontractors were operating contrary to Afghan and U.S. laws.

Since the project ends in September 2013 and has undergone substantial changes in scope, it is important that the amended IEE appropriately reflect new environmental requirements so the project will be fully compliant when it is done. Therefore, we make the following recommendation.

Recommendation 2. *We recommend that USAID/Afghanistan ascertain and document Black & Veatch's compliance with the Kandahar Helmand Power Project's final amended initial environmental examination.*

Mission Could Not Track Incremental Progress Adequately

ADS 596, "Management's Responsibility for Internal Control," explains how internal controls improve the accountability and effectiveness of operations and programs. Managers are responsible for implementing controls that reasonably ensure the quality and timelines of program performance. Internal controls must also reasonably safeguard the project from waste, loss, and misappropriation.

ADS 202, "Achieving," outlines policy directives and procedures used to achieve results in USAID foreign assistance activities. ADS 202.3.6.1, "Assessing Performance of Contractors and Recipients," requires CORs to monitor contractor performance, which may include reviewing and approving deliverables, and analyzing financial reports. ADS 202.3.6, "Monitoring Quality and Timeliness of Key Outputs," states that one of the COR's major tasks is monitoring quality and timeliness of the contractor's outputs. If they are late, the mission may not meet performance targets.

Accordingly, the original contract's section on performance requirements states that measuring and monitoring project activities would be ongoing and regular. The contract also stated that Black & Veatch "shall establish measurement and monitoring systems that generate information needed to track incremental implementation progress." Moreover, its reporting system "shall include 'look ahead' schedules, 'earned value' analysis, and simulations capable of depicting 'what if' scenarios."⁷ These analytical tools help managers track incremental progress within a project, and monitor and control costs. Contract Section C.4.9, "Cost Control Reporting System," also required Black & Veatch to develop a reporting system that would enable the mission to monitor progress and track costs versus budget for all activities under the contract.

At inception, the project comprised 6 components, 38 deliverables, and 68 tasks. Three of the components were further broken down into ten subcomponents; the first component alone (improve Kandahar's power distribution system) had five subcomponents and an estimated cost of \$91 million. Mission officials said the original contract was set up to be budgeted and

⁷ A look-ahead schedule shows upcoming project activities, usually covering a set period in the near term. Earned value analysis is a method of measuring project progress by determining the difference between what was planned and what was accomplished at a certain point in time, and how the difference affects the project's cost and schedule. A what-if scenario is a way to analyze the effect of internal and external variables on a project.

monitored only at the component level, even though parts of the contract described requirements for reporting at a more detailed level.

Inadequate Financial Tracking. The mission did not clearly define “activity” in the contract. For example, Section B.4, “Budget Line Items,” listed the contract line item number (CLIN) for each of the six original components; each one had a corresponding cost estimate. For the three components that are broken out into subcomponents, the contract lists sub-CLINs. However, there are no corresponding cost estimates for them. Black & Veatch’s cost control reporting system also did not initially include “look-ahead” schedules, earned value analysis, and simulations capable of depicting “what if” scenarios.

Incomplete Implementation Tracking. Black & Veatch’s contract did not require it to regularly report against clearly defined targets below the component level. For this reason, the mission could not track the project implementation of activities adequately. Instead, the mission relied on Black & Veatch’s weekly progress reports, along with regular meetings with Black & Veatch and DABS, and teleconferences with contractor management and field personnel. Mission officials said weekly reports enabled them to track progress at the subcomponent level, but the reports were not the best tools for managing performance because they did not facilitate comparisons between expected and actual results.

The mission’s decision to allow Black & Veatch to report financial performance only at the component level was questionable. The lack of detail made it more difficult to confirm that Agency resources were used efficiently, especially to procure expensive equipment and construction activities.

The situation resulted because the original contract and mission expectations were not clear. For example, the contractor started reporting on earned value only in mid-2012. The mission later changed the contract language from “shall” to “must” in the section on cost control reporting. Additionally, during the first year, high turnover of CORs and the focus on getting the project started were contributing factors.

Since May 2012, Black & Veatch’s progress reports have included the percentage of the project completed by each subcomponent. While the audit was in progress, mission officials worked with the contractor to restructure its reporting. Finally, a February 2013 contract modification required cost reporting at the subcomponent level. Thus, we are not making a recommendation related to this finding.

Mission Did Not Verify Invoices Consistently

ADS 630, “Payables Management,” states that it is not appropriate for CORs to ask routinely for all of the documentation that supports a payee’s invoice. ADS also states that the USAID chief financial officer’s policy is to ask for only relevant documents as required by the contract.

CORs have the authority, however, to resolve anomalies in invoices before payment. They can conduct spot-checks and request documentation for questionable invoices. Furthermore, contractors are required, for audit purposes, to maintain all receipts and records supporting invoice claims; the COR can obtain these documents as well.

ADS 203, "Assessing and Learning," describes the COR's responsibility for monitoring, evaluating, and verifying the contractor's performance. That information was reiterated in USAID/Afghanistan's designation letters for the project COR and alternate COR in May and August 2011. The letters described the COR's financial management responsibilities, and one of them was to approve invoices based on written evidence that goods and services were received and conformed to contract requirements.

Black & Veatch's contract addresses employee international travel in Section H.28, "International Travel Approval." It states that Black & Veatch has written approval from the contracting officer for international travel if it obtains the COR's written concurrence for such travel. The contract also states that pre-approval does not authorize the contractor to increase the estimated cost or exceed the obligated amount of the contract, and the contractor must keep a copy of each travel agreement.

The Federal Acquisition Regulation (FAR) also addresses official travel; FAR 31.205-46 (b), "Travel Costs," states that increased airfare costs are not permitted unless cheaper airfare requires circuitous routing, travel during unreasonable hours, or results in excessively prolonged travel.

Black & Veatch submitted biweekly invoices that include travel expenses. We reviewed 33 invoices and found \$164,157 in questionable costs for business- and first-class travel in 18.⁸ In these, the employees were using business- or first-class travel for domestic flights of 3 hours or less. Thus, the mission allowed reimbursement for expenses contrary to travel policy.

In fall 2011 the COR changed review procedures for travel concurrences. Since then, Black & Veatch included the class of travel in all of its travel concurrence requests and made fewer requests for business class travel. In April 2012 the mission notified Black & Veatch that all concurrence requests for premium travel had to be made on a case-by-case basis pursuant to FAR 31.205-46. The mission also disallowed business-class travel for short-term technical assistance trips proposed by the contractor in its draft budget.

Mission officials said the questionable invoices were from the first months of the project and resulted from the high turnover of CORs. The current COR reviews invoices, routinely asks for additional documentation, and conducts targeted spot-checks. The mission also has since assigned an invoice examiner and a third-party examiner to review Black & Veatch's invoices. These additional resources should allow the mission to manage the risks adequately.

The lack of verification of the financial information from the contractor in the project's early stages, however, increased the risk of fraud, waste, or abuse of U.S. funds. Therefore, we make this recommendation.

Recommendation 3. *We recommend that USAID/Afghanistan determine the allowability and recover, as appropriate, questioned costs of \$164,157 in first- and business-class travel that were identified in Black & Veatch's invoices for the Kandahar Helmand Power Project.*

⁸ Black & Veatch provided some travel concurrence requests for premium travel that the COR approved in late 2010 and early 2011. The audit was unable to determine if these represented all requests for premium travel.

Mission Did Not Approve Performance Management Plan in Timely Manner

ADS 203.3.3, “Performance Management Plans,” required mission offices to plan and manage the process of monitoring, evaluating, and reporting progress to achieve an objective. Under ADS 203.3.3.1, “Contents of a Complete Performance Management Plan,”⁹ missions routinely specify a schedule for data collection, as well as identify the data sources and the methods for collecting and analyzing them. After an award is executed, the project’s staff must complete a PMP that includes relevant indicators and baseline data; the plan should be completed within a few months of the award and before implementation begins.

USAID/Afghanistan did not meet these requirements in a timely manner. The mission awarded the contract to Black & Veatch in December 2010, and Black & Veatch submitted a document it called a “performance implementation plan” in August 2011. But the mission did not finalize a PMP until August 2012.

The delay occurred because Black & Veatch’s performance implementation plan did not comply with USAID guidance on PMPs and lacked the following required elements: baselines and targets; a schedule for data collection; sources of data; description of methods for data collection and analysis; data limitations; and data quality assessment procedures. In early 2012 the contractor submitted another draft and received more proposed revisions from the COR at the end of March 2012. However, that version still lacked some elements for Component 1, Subcomponent 2.

After the mission finally approved a PMP from Black & Veatch in August 2012, it has continued to adjust it to changing conditions, revising it in December 2012 and February 2013. Thus, we are not making a recommendation related to this finding.

Third-Party Monitoring Was Impaired

In April 2011 USAID/Afghanistan entered into a time-and-materials contract with IRD for the Engineering, Quality Assurance and Logistical Support (EQUALS) program; it was to provide technical assistance and field monitoring for the power project under two job orders.

One order went from August 2011 to June 2012, and it included the following tasks:

- Monitor contractor adherence to schedules and other specifications.
- Perform field inspections and test materials.
- Monitor compliance with environmental regulations.
- Conduct daily inspections (when present at a project site).
- Conduct other monitoring activities in the quality assurance plan.

The second job order went from July 2012 to April 2013 and contained all tasks from the first one, plus additional tasks, including:

⁹ This section was updated on January 17, 2012, as ADS 203.3.3.5, “Format and Content of PMP.”

- Conduct inspections on environmental compliance.
- Review contractor invoices.
- Produce biweekly quality assurance progress reports.

According to IRD officials, when their staff members could visit project sites, they conducted daily inspections as required. EQUALS staff made five site visits from August 1, 2011, to June 4, 2012, to Durai Junction. Mission officials said EQUALS also made six site visits to Shorandam Industrial Park during the same period and provided supporting documentation for some of them.

More site visits were planned, but IRD faced two constraints in the first year. First, EQUALS had problems getting started because IRD initially did not have personnel with technical expertise in Kandahar for construction management or project controls monitoring, and it had difficulty hiring local staff in Kandahar. Mission officials confirmed that IRD occasionally brought in personnel from other USAID projects it had in Afghanistan.

Second, the mission and Black & Veatch had a different understanding about the support that Black & Veatch was required to provide IRD. In May 2012 USAID sent Black & Veatch a letter to remind company officials about the importance of quality assurance; it also instructed Black & Veatch to provide IRD with project-related information and documents when requested. In a second letter sent in July 2012, the mission directed Black & Veatch to provide IRD staff access to transportation to project sites, stating that IRD officials were to be afforded the same priority for movement and space availability as Black & Veatch staff.

In the May 2012 letter, mission officials told Black & Veatch that the project's quality assurance program depends on close cooperation and transparency between its contractors to safeguard projects from fraud, waste, and mismanagement. Without that, USAID's significant investment in the power project is at risk.

Since USAID/Afghanistan has taken corrective action and documented its plans to ensure that Black & Veatch grants IRD staff routine access to records needed for project monitoring and transportation for site visits, we are not making a recommendation.

EVALUATION OF MANAGEMENT COMMENTS

The mission provided comments in response to the draft report. Based on information provided in that response, we determined that management decisions were reached on Recommendations 1 through 3. Our evaluation of management comments is provided below. The mission also provided technical comments and clarification on some of the facts and conclusions it disputed in the draft report. We considered the mission's comments and modified the report when appropriate.

Recommendation 1. The mission agreed and made a management decision. It will complete and implement a plan for sustaining the benefits derived from the Kandahar Helmand Power Project. The mission commented that in 2012 it started developing a sustainability plan for the project, and the plan will cover management, operations, maintenance, and planning as well as commercial practices at power generation facilities. The pending sustainability plan will address the overall sustainability of infrastructure improvements provided by USAID through the project. The mission has set a target date of September 30, 2014, to close the recommendation.

Recommendation 2. The mission agreed and made a management decision. It will ascertain and document Black & Veatch's compliance with the project's final amended IEE. The mission developed an environmental tracker to ensure full compliance of the Black and Veatch contract. The mission noted that it would require that a discussion on environmental compliance be included in Black & Veatch's final report. The mission set a target date of December 31, 2013, to close the recommendation.

Recommendation 3. The mission agreed and made a management decision. It will determine the allowability and recover as appropriate questioned costs of \$164,157 in first- and business-class travel identified for the project. The mission said that it would ask Black & Veatch for all supporting documents for all business- and first-class travel paid for under the contract. The mission set a target date of December 31, 2013, to close the recommendation.

SCOPE AND METHODOLOGY

Scope

The OIG/Afghanistan Country Office conducted this performance audit in accordance with generally accepted government auditing standards. They require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe the evidence obtained provides that reasonable basis.

The objective of the audit was to assess USAID/Afghanistan's project oversight, compliance with environmental requirements, and sustainability planning for the Kandahar Helmand Power Project.

The audit was performed in Afghanistan from May 1, 2012 through May 16, 2013. It covered the period from the contract award date of December 2010 to the end of our fieldwork in May 2013. We conducted fieldwork at USAID/Afghanistan, Regional Platform-South, Kandahar Provincial Reconstruction Team, and at project sites of Kandahar Breshna Kot and Shorandam Industrial Park Substations. The components tested represent \$95.7 million, or 36 percent of the total \$266 million estimated cost of the project.

The scope of the audit was limited because we could not conduct fieldwork relating to four of the six project components.

- 2, Rebuild Durai Junction Substation: Unable to travel to the project site because of security concerns and travel resource restrictions.
- 3, Regional Camp and Project Management: This was being substantially revised and negotiated as part of a contract modification.
- 5, Kajaki Dam Substation: In the process of being transferred to U.S. Army Corps of Engineers.
- 6, Installation and Commissioning of Kajaki Unit 2: When we began audit fieldwork USAID had not begun significant work on the component.

We were able to visit Kandahar Breshna Kot Substation (part of Component 1) and the Shorandam Industrial Park Diesel Power Plant (Component 4). Results and conclusions based on testing at these sites apply to these specific activities. We also gathered information from interviews with contractor, subcontractor, and DABS personnel during the site visits that was relevant to the project as a whole.

We assessed the following significant internal controls that USAID/Afghanistan used to monitor project activities: work statements and program descriptions; third-party monitoring and evaluation plans; the PMP; environmental compliance plans; IEEs and amendments; progress and financial reports; and reports of meetings and other contacts between mission officials and Black & Veatch. We also assessed monitoring conducted by a third-party independent monitor.

We tested the data quality of the performance measurements and assessed the sustainability of the projects. We also conducted testing of judgmentally selected subcontractor files and project invoices.

We reviewed USAID/Afghanistan's Federal Managers' Financial Integrity Act report for fiscal year 2012 and prior audit reports to identify internal control and other issues relevant to the audit.

Methodology

To answer the audit objective, we interviewed USAID/Afghanistan officials, implementing partners, third-party independent monitors, subcontractor personnel, and DABS officials in the field. We analyzed relevant documentation, including contracts and agreements, plans, reports, performance indicators, and financial records.

During visits to the project sites, we verified the progress toward implementation of Components 1 and 4. At the two sites, we observed operations and interviewed employees of the public utility, contractor, and one subcontractor that were involved in activities related to the project. We also questioned project sustainability, reviewed internal controls relating to relevant data and reporting, tested a random sample of data reports to assess the accuracy of data Black & Veatch reported to USAID, reviewed environmental compliance plans, reports, and relevant environmental site mitigation activities, and conducted walk-throughs and took photographs of project sites.

MANAGEMENT COMMENTS



USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

MEMORANDUM

August 14, 2013

TO: James Charlifue, OIG/Afghanistan Director

FROM: William Hammink, Mission Director /s/

SUBJECT: Draft Report on the Audit of USAID/Afghanistan's Kandahar Helmand Power Project (Report No. F-306-13-00X-P)

REFERENCE: JCharlifue/SWines memo dated July 7, 2013

Thank you for providing USAID/Afghanistan with the opportunity to review the subject draft audit report. Discussed below are the Mission's comments on the recommendations in the report.

Recommendation 1. We recommend that USAID/Afghanistan complete and implement a plan for sustaining the benefits derived from the Kandahar Helmand Power Project.

Mission Comments: The Mission concurs with Recommendation 1.

Actions Taken/Planned: In 2012, USAID initiated development of a sustainability plan which is being pursued through separate mechanisms supporting DABS in the areas of improved management, operations, maintenance, and planning, as well as strengthened commercial practices. These mechanisms are in procurement by DABS and include management and commercialization contracts for building institutional capacity and improving commercial performance at DABS Kandahar. The pending sustainability plan will formalize the role each of these mechanisms will play in the overall sustainability of infrastructure improvements provided by USAID through KHPP. The Mission will finalize a sustainability plan by the end of September 2014.

Target Closure Date: September 30, 2014

Based on the actions taken/planned discussed above, the Mission requests OIG/Afghanistan's acknowledgment of the management decision on Recommendation 1.

Recommendation 2. We recommend that USAID/Afghanistan ascertain and document Black & Veatch's compliance with the Kandahar Helmand Power Project's final

amended initial environmental examination.

Mission Comments: The Mission concurs with Recommendation 2.

Actions Taken/Planned: An environmental compliance tracker has been developed by USAID in collaboration with Black & Veatch. USAID is actively monitoring completion of outstanding tasks to ensure full compliance prior to the end of the Black & Veatch contract. USAID will require Black & Veatch to include a discussion on environmental compliance in its final report.

Target Closure Date: December 31, 2013

Based on the actions taken/planned discussed above, the Mission requests OIG/Afghanistan's acknowledgment of the management decision on Recommendation 2.

Recommendation 3. *We recommend that USAID/Afghanistan determine the allowability and recover, as appropriate, questioned costs of \$164,157 in first- and business-class travel that were identified in Black & Veatch's invoices for the Kandahar Helmand Power Project.*

Mission Comments: The Mission concurs with Recommendation 3.

Planned Actions: USAID/OAA will request from the contractor all supporting documentation for all business and first-class travel paid for under the contract and make a cost-allowability determination in accordance with the terms and conditions and cost principles governing the contract. USAID will inform OIG of the management decision as soon as it is made.

Target Closure Date: December 31, 2013

cc: OAPA: RPorter/HDorcus

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