

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR Audit 13-2

AFGHANISTAN'S NATIONAL POWER UTILITY: \$12.8 MILLION IN DOD-PURCHASED EQUIPMENT SITS UNUSED, AND USAID PAID A CONTRACTOR FOR WORK NOT DONE



DECEMBER
2012

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

Afghanistan's national power utility, Da Afghanistan Breshna Sherkat (DABS), operates and manages electric power generation, import, transmission, and distribution throughout Afghanistan. Since 2009, the U.S. government has supported the Afghanistan government by obligating almost \$88 million to assist in commercializing DABS. U.S. government projects-funded by U.S. Forces-Afghanistan (USFOR-A) and the U.S. Agency for International Development (USAID) focus on assisting DABS in increasing cost recovery, reducing losses, and building its capacity to manage, operate, and maintain a national power system. This report provides information on equipment purchased to support DABS efforts in Kandahar and on fees paid to a USAID contractor. We will address additional findings related to U.S. government projects to assist in DABS commercialization in a forthcoming audit report.

WHAT SIGAR RECOMMENDS

To ensure equipment purchased will be used to rebuild, repair, and expand electrical distribution grids, we recommend that the Commanding General, USFOR-A Regional Command-South, determine whether \$12.8 million of equipment procured for Kandahar province can and should be installed in Kandahar and either develop a plan for installation or conduct a needs assessment to determine other uses for the equipment. We also recommend that the USAID Mission Director for Afghanistan instruct the mission's contracting office to complete a comprehensive assessment of task order deliverables and contractor performance and seek reimbursement for any fixed fee paid in excess of the appropriate amount. USFOR-A and USAID concurred with our recommendations. Comments from both agencies are reproduced in appendices IV and V.

December 2012

AFGHANISTAN'S NATIONAL POWER UTILITY: \$12.8 MILLION IN DOD-PURCHASED EQUIPMENT SITS UNUSED, AND USAID PAID A CONTRACTOR FOR WORK NOT DONE

SIGAR AUDIT 13-2

WHAT SIGAR FOUND

As part of our ongoing audit of U.S. funded projects to help commercialize DABS, we identified two issues that we believe warrant immediate attention.

First, almost \$12.8 million in equipment purchased to meet urgent needs in support of the counterinsurgency strategy is sitting unused in storage controlled by the U.S. Army Corps of Engineers-Afghanistan Engineer District South (USACE-TAS) without a clear plan for installation. USFOR-A approved the projects under the Commander's Emergency Response Program (CERP)—intended to enable U.S. commanders to respond to urgent requirements by carrying out programs that will immediately assist local populations—and originally intended to turn the equipment directly over to DABS-Kandahar for installation. However, due to the lack of an installation plan, nearly all of the equipment is currently stored at Shorandam Industrial Park outside Kandahar City.

USFOR-A funded the procurement of the equipment without considering DABS-Kandahar's lack of capacity to install and manage the equipment and without requiring an initial, achievable plan for installation. Although the first contract was awarded in August 2010, none of the agencies involved—USFOR-A, USACE-TAS, USAID or DABS—completed an installation plan, either prior to or following procurement of the equipment. USACE-TAS officials now cite the poor technical capacity of DABS-Kandahar as a barrier preventing it from



U.S government-purchased equipment stored at Shorandam Industrial Park, Kandahar province. SIGAR site visit, September 18, 2012.

properly installing and managing the equipment independently, but this factor was not considered earlier in the funding or procurement processes.

Further contributing to the ongoing storage of the equipment is confusion regarding which agency is responsible for the installation of some equipment. In response to SIGAR's initial request for baseline information on commercialization projects, USACE-TAS officials stated that approximately 50,000 customer electric meters would be installed by USAID or its contractor as part of USAID's task order. However, a modification to the task order states that the contractor only would be responsible for providing an installation plan and not for actual installation. USAID reported that the contractor has not completed the installation plan for the meters as required by the task order modification but has offered no further information about why this has not been done. Although the agencies reported different accounts of who was responsible for the installation of the meters, SIGAR could find no written agreement between the agencies supporting either agency's assertions.

The meters procured as part of the starter and completion kits have a warranty of 2 years from the date of dispatch from the manufacturer (March 3, 2012). Given the amount of time that has already lapsed since purchase, if the meters are found to be faulty following installation, the warranty may already have expired. This would leave the U.S. government with no recourse for the manufacturer to replace defective equipment under warranty.

A second issue is that USAID paid a contractor the full allowable fee on a task order, despite the contractor's failure to complete 26 of the 34 deliverables required. In 2009, USAID awarded the \$3.4 million cost-plus-fixed-fee Task Order 22 for the Afghanistan Infrastructure and Rehabilitation Program to Louis Berger Group Inc/Black & Veatch Special Projects Corp Joint Venture. The task order, with an original period of performance of May 10, 2009 to May 9, 2011, was initially awarded to provide expert technical assistance, training, and contract advisory support to DABS Corporate in Kabul. However, several modifications followed, resulting in an entirely revised scope of work focusing on commercialization activities in



Meter stored at Shorandam Industrial Park, Kandahar province. SIGAR site visit, September 18, 2012.

Kandahar; an extended period of performance through December 31, 2011; modified deliverables; and a near doubling of the original contract value to almost \$6.8 million.

Although USAID had disbursed approximately \$5.76 million to the contractor as of July 31, 2012, the contractor did not complete 76 percent of the deliverables required by the task order. Specifically, according to the task order and modifications, the contractor was responsible for providing a total of 34 deliverables to USAID. USAID was able to provide evidence that the contractor completed seven deliverables on time and one additional deliverable late. Neither USAID nor the contractor provided evidence that the contractor completed any of the remaining 26 deliverables. Furthermore, SIGAR found no evidence that USAID assessed the deliverables provided by the contractor or held the contractor responsible for providing required outputs. Among the deliverables not completed are a draft and final meter installation plan, procurement and installation of 231 boundary meters, and a transition manual and handover plan for Kandahar commercialization activities.



SIGAR | Office of the Special Inspector General
for Afghanistan Reconstruction

December 18, 2012

General John R. Allen
Commander, U.S. Forces-Afghanistan, and
Commander, International Security Assistance Force

Major General Robert B. Abrams
Commander, U.S. Forces-Afghanistan Regional Command-South,

Dr. S. Ken Yamashita
USAID Mission Director for Afghanistan

The Special Inspector General for Afghanistan Reconstruction (SIGAR) is conducting an audit of U.S. government efforts to assist in the commercialization of Afghanistan's national power utility, Da Afghanistan Breshna Sherkat (DABS) (code O63A). In this report, we address two issues we found in the course of our audit that we believe warrant immediate attention prior to issuing a final report in early 2013. First, almost \$12.8 million in equipment purchased to meet urgent needs is sitting unused in U.S. Army Corps of Engineers-Afghanistan Engineer District South (USACE-TAS) controlled storage without a clear plan for installation. Second, the U.S. Agency for International Development (USAID) paid a contractor the full allowable fee on a contract despite the contractor's failure to complete 76 percent of required deliverables. We are providing the enclosed report for your review and comment. The report includes one recommendation to the Commanding General of U.S. Forces-Afghanistan (USFOR-A) Regional Command-South to work with stakeholders to develop and execute a plan to install equipment valued at approximately \$12.8 million and one recommendation to the USAID-Afghanistan Mission's contracting office to complete a comprehensive assessment of deliverables and contractor performance and seek appropriate reimbursement for performance deemed unsatisfactory.

We received comments from USFOR-A and USAID, which are reproduced in appendices IV and V. USFOR-A concurred with our first recommendation and USAID concurred with our second recommendation. SIGAR conducted this work under the authority of Public Law 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008 and in accordance with generally accepted government auditing standards.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

CC: The Honorable Hillary Rodham Clinton, Secretary of State; The Honorable Leon Panetta, Secretary of Defense; The Honorable James B. Cunningham, U.S. Ambassador to Afghanistan; General James N. Mattis, Commander, U.S. Central Command; Lieutenant General Thomas Bostick, Commanding General and Chief of Engineers, U.S. Army Corps of Engineers

TABLE OF CONTENTS

Background	1
Almost \$12.8 Million in Electricity Distribution Equipment Purchased to Meet Urgent Needs is Sitting Unused in Storage	4
USAID Paid Contractor the Maximum Allowable Fee despite Poor Performance	7
Conclusions.....	9
Recommendations	9
Agency Comments	10
Appendix I - Scope and Methodology	11
Appendix II - Losses in Energy Distribution	12
Appendix III - Status of Deliverables for USAID Task Order 22	13
Appendix IV - Comments from U.S. Forces-Afghanistan, Regional Command-South	17
Appendix V - Comments from the U.S. Agency for International Development.....	18

TABLES

Table 1 - Ongoing and Completed DABS Commercialization Projects.....	3
Table I - Status of Deliverables for USAID Task Order 22	13

FIGURES

Figure 1 - Pallets of Transformers	4
Figure 2 - Wire Storage.....	5
Figure 3 - Pole Storage.....	5
Figure 4 - Pallets of Customer Meters.....	6
Figure I - Energy Flow from Generation to Distribution.....	12
Figure II - Losses in the Distribution System.....	12

ABBREVIATIONS & ACRONYMS

CERP	Commander's Emergency Response Program
DABS	Da Afghanistan Breshna Sherkat
LBG/B&V	Louis Berger Group, Inc./Black & Veatch Special Projects Corp. Joint Venture
RC-S	Regional Command-South
RC-SW	Regional Command-Southwest
SIGAR	Special Inspector General for Afghanistan Reconstruction
TO 22	Task Order 22
USACE	U.S. Army Corps of Engineers
USACE-TAS	U.S. Army Corps of Engineers-Afghanistan Engineer District South
USAID	U.S. Agency for International Development
USFOR-A	U.S. Forces-Afghanistan

Since 2009, the U.S. government has supported the Afghan government by obligating almost \$88 million to assist in commercializing the national power utility, Da Afghanistan Breshna Sherkat (DABS). In addition to those funds already obligated, the U.S. Agency for International Development (USAID) plans to provide an additional \$157 million between 2013 and 2016 to assist with building capacity and commercializing DABS as part of USAID's \$814 million Power Transmission Expansion and Connectivity program. DABS operates and manages electric power generation, import, transmission, and distribution throughout Afghanistan. U.S. government projects—funded by USAID and U.S. Forces-Afghanistan (USFOR-A)—focus on assisting DABS in increasing cost recovery, reducing losses,¹ and building DABS's capacity to manage, operate, and maintain a national power system (see appendix II for more details on where/how losses occur throughout the transmission and distribution process).

As part of our ongoing audit of U.S.-funded projects to assist in commercializing DABS—initiatives responding to the Afghanistan government's goal of developing a modern and efficiently run energy supplier—we identified two issues related to U.S. commercialization projects in Afghanistan's Kandahar province that we believe warrant immediate attention and prompted us to issue this interim report.

BACKGROUND

Afghanistan's National Priority Programs include increasing energy sector commercialization and national generation capacity as a key component of the government's national energy policy.² The overall mission of DABS within this framework is to acquire, operate, and maintain the equipment and systems needed to finance, generate, supply, and expand electricity to all areas of Afghanistan.

DABS headquarters is located in the city of Kabul; DABS also maintains seven regional departments throughout the country in Kabul, Parwan, Kunduz, Balkh, Herat, Nangarhar, and Kandahar provinces.³ Since 2009, the U.S. government has focused its commercialization efforts primarily in Kabul and—to a lesser extent—Kandahar and Helmand. Due in part to these efforts, DABS-Kabul has been relatively successful in improving revenue collection and reducing losses in Kabul.

The U.S. government's efforts to assist DABS in Kandahar and Helmand have been less successful, however. USAID cites security concerns, resistance from regional DABS officials, and a lack of available qualified staff as difficulties in moving forward with commercialization activities. USAID estimates power losses of 60 to 80 percent for DABS-Kandahar. Our analysis of USAID data on DABS-Kandahar revenues from November 2010 to

¹Commercialization efforts include reducing technical and commercial losses in the distribution process. Technical losses refer to differences in the amount of energy purchased by a utility and the amount of energy consumed or stored by the utility; these losses often occur as a result of poorly maintained or aging equipment/infrastructure and overloading. Non-technical (or commercial) losses refers to differences in the amount of (1) energy consumed and the amount billed (unbilled energy), and (2) energy billed and energy paid (unpaid energy). Throughout this report, we use "losses" to refer to both technical and nontechnical losses in the electrical distribution process.

²Government of Afghanistan, National Priority Programs, Economic and Infrastructure Development Cluster, July 2010, pg. 49. The 22 National Priority Programs are grouped in six clusters: Security, Human Resource Development, Infrastructure Development, Private Sector Development, Agriculture and Rural Development, and Governance. The National Energy Program, designed to address the gap between supply and demand for electricity, is included under the Infrastructure Development cluster.

³Additionally DABS has 10 sub-regional offices, including an office in Helmand.

October 2011⁴ indicates that such losses resulted in at least \$4.3 million⁵ in lost revenue during that period.⁶ Nevertheless, USAID maintains that the successful commercialization of DABS-Kandahar will serve longer term development needs and contribute to the U.S. military's counterinsurgency strategy. In addition, continuing commercialization activities are linked to the sustainability of projects intended to improve the distribution and transmission of power to southern Afghanistan.

For our audit, we defined "commercialization" as U.S. government efforts to assist DABS to increase revenues, decrease losses, and become a self-sustaining entity.⁷ Since 2009, USAID has obligated almost \$61 million on two contract task orders and one grant to assist in commercialization efforts in Kabul and Kandahar; however, all but the grant are completed. USFOR-A has obligated more than \$27 million in Commander's Emergency Response Program (CERP) funds—intended to enable U.S. commanders to respond to urgent requirements by carrying out programs that will immediately assist local populations—to USACE-TAS to purchase equipment to assist in rebuilding, repairing, and expanding current electrical distribution grids for Regional Command-South (RC-S) and Regional Command-Southwest (RC-SW).⁸ USAID is not currently funding any new commercialization projects in Afghanistan, but it is planning to provide an additional \$157 million to DABS in direct assistance between 2013 and 2016 to assist in commercialization and capacity building. Table 1 shows ongoing and completed U.S. government projects designed to assist in the commercialization of DABS.

⁴USAID received DABS-Kandahar revenue data from its contractor in Kandahar. The contractor departed Kandahar in December 2011, so more recent data is not available for analysis.

⁵Actual total amount collected by DABS-Kandahar during this period was 145,352,438 Afghanis. Analysis and currency conversion based on 60 percent losses and September 30, 2012 U.S. Department of Treasury exchange rate of 50.5 Afghanis to 1 U.S. dollar.

⁶Some losses are common in electricity transmission and distribution. For example, losses in the United States average 7 percent.

⁷While USFOR-A, USACE, and USAID were unable to provide an official definition of commercialization, all agencies agreed with our working definition. A document provided by USAID during our audit work defines commercialization activities as those "supporting the development of effective commercial capacity of DABS, including the systems, corporate commitment, and human resource capacity to operate on a commercial basis, with full cost recovery." We coordinated the development of our definition with USAID early in our work and believe the definitions are materially the same.

⁸The area of responsibility for RC-S is Kandahar, Uruzgan, Zabul, and Daykundi provinces. The area of responsibility for RC-SW is Helmand and Nimroz provinces.

Table 1 - Ongoing and Completed DABS Commercialization Projects

Funding Agency	Project	Location	Description	Status	Period of Performance	Obligated Amount
USAID	Kabul Electricity Services Improvement Project	Kabul	Commercialization activities	Complete	5/5/2009-3/31/12	\$53,025,290
USAID	Kandahar Commercialization (Task Order 22) ^b	Kandahar		Complete	5/10/09-12/31/11	\$6,875,436
USAID	Etisalat Afghanistan	Kandahar ^c	Support Etisalat in mobile electricity bill payment	Ongoing	12/1/11-12/31/12	\$676,110
RC(S)	Kandahar City Starter Kit 1	Kandahar	The near term increase and improved reliability of electrical power in the Kandahar area.	Complete	8/13/10-3/25/12	\$7,446,712 ^d
	Kandahar City Starter Kit 2			Ongoing ^e	7/20/11-1/16/12	
RC(S)	Pashmul Completion Kits	Kandahar	Purchase materials for new digital, individual metered connections to homes and businesses.	Ongoing	09/29/11-11/30/12	\$2,843,564 ^d
RC(S)	Maiwand Completion Kits	Kandahar				\$2,704,128 ^d
RC(S)	Spin Boldak Completion Kits	Kandahar				\$3,232,527 ^d
RC(SW)	Sangin Completion Kits	Helmand				\$2,843,564 ^d
RC(SW)	Musa Qa'leh Completion Kits	Helmand	Ongoing	9/28/11-12/30/12	\$2,704,128 ^d	
RC(SW)	Hyderabad Completion Kits	Helmand			\$2,704,128 ^d	
RC(SW)	Tangi Completion Kits	Helmand			\$2,843,564 ^d	
Total						\$87,899,151

Source: SIGAR analysis of USFOR-A, USACE-TAS, and USAID data.

Notes: ^aRows highlighted in blue denote projects discussed in this report.

^bThe initial task order scope of work cites providing technical assistance, training, and contract advisory support to DABS Corporate. Modification 1 to the Task Order changed the scope of work to providing technical assistance to DABS-Kandahar.

^cThe initial grant cites supporting Etisalat in mobile electricity bill payment in Kandahar. Modification 1 to the grant changed the implementation area from Kandahar to Kabul.

^dRepresents amount of CERP funds transferred from RC-S and RC-SW to USACE-TAS through a Military Interdepartmental Purchase Request.

^eUSACE-TAS has not modified the period of performance and is still receiving equipment purchased as part of the Kandahar City Starter Kit 2.

ALMOST \$12.8 MILLION IN ELECTRICITY DISTRIBUTION EQUIPMENT PURCHASED TO MEET URGENT NEEDS IS SITTING UNUSED IN STORAGE

According to USAID,⁹ improvement in residential collections is by far the largest opportunity for DABS-Kandahar to increase revenues. However, existing customer meters are antiquated, and USAID reports that surveys suggest around 70 percent of meters are typically broken or under-recorded.¹⁰ Existing meters also can be easily tampered with, causing inaccurate billing of energy consumption.

To help DABS-Kandahar address these issues, USFOR-A approved four CERP projects intended to help DABS decrease losses and increase revenues. These projects were designed to procure urgently needed electricity distribution equipment¹¹—including new electric meters—for Kandahar. USFOR-A requested that USACE-TAS execute the contracts to

purchase the equipment for use by DABS-Kandahar to help rebuild, repair, and expand the current electrical distribution grids, including meter replacement. USACE-TAS executed the CERP projects through two contracts for this equipment in Kandahar City (Starter Kit 1 and Starter Kit 2, signed August 13, 2010 and July 20, 2011, respectively) and one contract for completion kits in Pashmul, Maiwand, and Spin Boldak (signed September 29, 2011).¹² USACE-TAS procured the equipment from a contractor, Jubaili Brothers, at a total of more than \$12.8 million in CERP funds. As of September 20, 2012, USACE-TAS had received approximately 90 percent of the equipment.¹³

Figure 1 - Pallets of Transformers



Source: SIGAR site visit photo, September 18, 2012.

⁹Reported by USAID contractor Louis Berger Group Inc./Black & Veatch Special Projects Corporation Joint Venture (LBG/B&V).

¹⁰Task Order 22 Close-out Report dated March 2012.

¹¹The CERP funds were transferred from USFOR-A to USACE through a Military Interdepartmental Purchase Request.

¹²Starter kits and completion kits are made up of equipment to improve the electricity distribution infrastructure. According to USACE officials, and based on our review of the required equipment, the two kits are virtually identical in content and include items such as meters, transformers, poles, and trucks.

¹³The percentage excludes equipment received for Kandahar City Starter Kit 1, as USACE has not been able to provide SIGAR with receiving information for this contract; however, USACE officials stated that 100 percent of the equipment for this contract has been received.

USFOR-A approved the CERP projects based on USFOR-A requirements that CERP funds be used to meet an urgent need. USFOR-A originally intended that the equipment be turned directly over to DABS-Kandahar for installation.¹⁴ The project justifications contained in the approved CERP files for the four projects state that the projects support the U.S. government's counterinsurgency strategy in Afghanistan, respond to an urgent humanitarian need, and increase the Afghan government's capacity to generate and deliver electricity to the Afghan people. The CERP files also state that DABS-Kandahar would administer and execute the installation of the equipment, under the supervision and management of USACE-TAS. However, USACE-TAS only received funding to procure the equipment and was not funded to provide supervision and management of the installation.

Figure 2 - Wire Storage



Source: SIGAR site visit photo, September 18, 2012.

Figure 3 - Pole Storage



Source: SIGAR site visit photo, September 18, 2012.

After procuring the equipment, however, USACE-TAS officials determined that DABS-Kandahar lacked the technical and operational capacity to properly install and manage it.¹⁵ Instead of being turned over to DABS for installation, therefore, nearly all equipment currently sits unused in a USACE-TAS-controlled storage facility at Shorandam Industrial Park outside Kandahar City without a plan in place for its ultimate installation.¹⁶ Figures 1-4 show the equipment in its current storage location.

¹⁴USFOR-A PUB1-06, *Commander's Emergency Response Program (CERP) SOP*, March 2012.

¹⁵ USACE-TAS has not made a formal assessment of the capacity of DABS-Kandahar.

¹⁶ Shorandam Industrial Park is a U.S. facility housing a power plant supplying electricity, and is located just outside of Kandahar City. According to USACE, the facility will be turned over to the Government of Afghanistan in December 2014. SIGAR auditors and an engineer inspected the equipment in storage in September 2012 and the equipment appeared to be well-maintained within the storage facility and USACE had a process and internal controls for approving requests and issuing equipment to DABS-Kandahar. According to USACE-TAS, the equipment is presently distributed to DABS-Kandahar on an as-needed basis. To date, however, only a limited number of items have been turned over.

Figure 4 - Pallets of Customer Meters



Source: SIGAR site visit photo, September 18, 2012.

USFOR-A funded the procurement of the equipment without considering DABS-Kandahar’s lack of capacity to install and manage the equipment or requiring an initial, achievable plan for installation. Although the first contract was awarded in August 2010, none of the agencies involved—USFOR-A, USACE-TAS, USAID or DABS—completed an installation plan, either prior to or following procurement of the equipment.¹⁷ In addition, despite CERP requirements that projects be sustained by a local population, agency, or government office, no agency determined the capacity of the Afghan stakeholder, DABS, to install and maintain the equipment until after it had already been procured. USACE-TAS officials now cite the poor technical capacity of DABS-Kandahar as a barrier preventing it from properly installing and managing the equipment independently, but this factor was not considered earlier in the funding or procurement processes; USAID and Asian Development Bank officials¹⁸ independently verified this assessment.

Further contributing to the ongoing storage of the equipment is confusion regarding which agency is responsible for the installation of some equipment. In response to our initial data request for baseline information on commercialization projects, USACE-TAS officials stated that approximately 50,000 customer electric meters, procured as part of the Kandahar City Starter Kit 2, and constituting approximately 60% of the value, would be installed by USAID or its contractor as part of USAID’s Task Order 22 (TO 22). However, modification 2 of TO 22 explicitly contradicts this, stating that the contractor only would be responsible for providing an installation plan and not for actual installation. Specifically, the modification states:

“The U.S. Army Corps of Engineers (USACE) will be providing 55,000 customer meters to DABS to replace existing meters that are dysfunctional. The [USAID] contractor shall prepare a plan and implementation schedule for the installation of the new meters provided by USACE. The plan will

¹⁷Recent discussions between USFOR-A RC-S, USACE-TAS, and DABS-Kandahar as a direct result of our audit indicate potential efforts to develop an installation plan as well as improve communication on future CERP projects.

¹⁸Asian Development Bank is the lead donor organization in Afghanistan’s energy sector, and, in conjunction with the Afghan government, is developing the master plan for Afghanistan’s energy sector.

include the replacement of existing meter boxes to protect the new meters and prevent tampering. The contractor will not be responsible for installing the meters.”

USAID reports that the contractor has not completed the installation plan for the meters as required by modification 2 of TO 22, but has offered no further information about why this has not been done. Although the agencies reported different accounts of who was responsible for the installation of the meters, we could find no written agreement between the agencies supporting either agency’s assertions.

The meters procured as part of the starter and completion kits have a warranty of 2 years from the date of dispatch from the manufacturer, March 3, 2012. Given the amount of time that has already lapsed since purchase, if the meters are found to be faulty following installation, the warranty may already have expired. This would leave the U.S. government with no recourse for the manufacturer to replace defective equipment under warranty. According to USAID officials, some of this equipment may be installed as part of its planned Power Transmission Expansion and Connectivity program, but USAID does not yet have any finalized statements of work, and no formal, coordinated installation plan has been developed with USFOR-A, USACE-TAS, and DABS.

USAID PAID CONTRACTOR THE MAXIMUM ALLOWABLE FEE DESPITE POOR PERFORMANCE

On May 10, 2009, USAID awarded the \$3.4 million cost-plus-fixed-fee TO 22 for the Afghanistan Infrastructure and Rehabilitation Program to LBG/B&V.¹⁹ The task order, with an original period of performance of May 10, 2009 to May 9, 2011, was initially awarded to provide expert technical assistance, training, and contract advisory support to DABS Corporate in Kabul. However, several modifications followed, resulting in an entirely revised scope of work focusing on commercialization activities in Kandahar; an extended period of performance through December 31, 2011; modified deliverables; and a near doubling of the original contract value to almost \$6.8 million.

Although USAID had disbursed approximately \$5.76 million to the contractor as of July 31, 2012, the contractor did not complete 76 percent of the deliverables required by TO 22. Specifically, according to the task order and modifications, the contractor was responsible for providing a total of 34 deliverables to USAID. USAID was only able to provide evidence that the contractor completed seven deliverables on time and one additional deliverable late. Neither USAID nor the contractor provided evidence that the contractor completed any of the remaining 26 deliverables. Furthermore, we found no evidence that USAID assessed the deliverables provided by the contractor or held the contractor responsible for providing required outputs. Among the deliverables not completed are a draft and final meter installation plan, procurement and installation of 231 boundary meters, and a transition manual and handover plan for Kandahar commercialization activities. (See appendix III for a list of all deliverables and associated status.)

In the TO 22 closeout report, the contractor stated that several challenges prevented the completion of deliverables, including short timeframes, delays, and issues with DABS-Kandahar management. The contractor also noted, however, that these challenges were evident from the start of the activities supporting DABS-Kandahar. For example, the contractor did not meet with DABS-Kandahar managers until September 2010 – almost a year after the Kandahar commercialization piece was added. Similarly, although LBG/B&V

¹⁹In August 2006, USAID awarded a 5-year indefinite quantity contract with a ceiling price of \$1.405 billion, to the LBG/B&V for the Afghanistan Infrastructure and Rehabilitation Program. Under this contract, between August 25, 2006 and August 24, 2011, USAID issued 27 cost-plus-fixed-fee task orders. Black and Veatch was the implementing partner responsible for the implementation of TO 22 (contract number 306-I-22-06-00517-00).

hired a Task Order Manager in early December 2010, he did not arrive in Kandahar until August 2011. According to the contractor's closeout report for TO 22:

“...it was clear from the start that both the timeframe and the scope of work were not sufficient to deliver the expected results. On top of this the external environment was one that lacked the legal framework to support commercialization efforts, senior [DABS] management were kept in place despite the fact that they were not qualified for the positions and had an agenda to continue with the inefficient and corrupt practices of the past...”

Adding to the contractor's stated challenge of too much work and too little time, USAID and DABS headquarters officials identified friction and a personality conflict between the LBG/B&V TO 22 Manager and the head of DABS-Kandahar as further issues preventing the completion of some contract activities. According to a former Black & Veatch official responsible for the closeout of TO 22, the Task Order Manager and Deputy Task Order Manager were pulled out of Kandahar in November 2011 to help alleviate the personality conflicts. Consequently, the contractor had a Task Order Manager on the ground in Kandahar for fewer than 4 months of the entire commercialization effort. Despite the contractor's assertion that challenges in fulfilling the terms of the contract were “clear from the start,” the contractor nonetheless signed the task order and associated modifications, thereby accepting responsibility for the contract deliverables. It remains unclear whether the contractor made satisfactory efforts to provide contractually required deliverables.

On January 12, 2012, after the expiration of the task order's period of performance, a senior LBG/B&V official responsible for the Afghanistan Infrastructure and Rehabilitation Program contract submitted a written request to USAID to modify TO 22's statement of work. The contractor-requested modification appears to be an effort to more closely align the statement of work with what the contractor actually completed. However, the modification request only addressed 5 of the 26 deliverables the contractor did not complete. According to USAID officials, the modification request has been under review since they received it over 9 months ago. USAID stated that it will review the items LBG/B&V is requesting that USAID remove from the statement of work and that the contracting officer's representative is still working with LBG/B&V to reconcile the contractor's budget. However, a review of communication between USAID and the contractor suggests that USAID plans to simply modify the statement of work, per the contractor's request, without adjusting the fee or other costs in any other way.²⁰

The Federal Acquisition Regulation allows a fixed fee to be conditional based upon receipt of required deliverables. USAID, however, paid the maximum allowable fixed fee to the contractor, even though our analysis found that only 24 percent of required deliverables were completed. Federal Acquisition Regulation 16.306(d)(1) states that a cost-plus-fixed-fee contract requiring a definite goal or end product—such as reports—requires the contractor to complete and deliver the specified end product within the estimated cost as a condition for payment of the entire fixed fee. Additionally, the Afghanistan Infrastructure and Rehabilitation Program contract²¹ states that,

“If the Contracting Officer determines that this [fixed fee payment] method results in paying a disproportionately higher ratio of fixed fee than the percentage of work that the Contractor has completed, then the Contracting Officer may suspend further payment of any fixed fee until the Contractor has made sufficient progress to justify further payment...”

²⁰Our analysis of communication between responsible USAID officials and the contractor from February to September 2012 found that USAID continually asked the contractor to provide budget revisions so that a modification to the contract, per the contractor's request, could be completed. Since the completion of the task order, in December 2011, USAID never told the contractor that the contractor may face a reduction in fee due to poor performance. After receiving a copy of a draft of this report, on October 17, 2012, USAID informed the contractor of the possible performance-based reduction in fixed fee, more than 9 months after the original modification request.

²¹Contract 306-I-00-06-00517-00, §B.5.3.a.

The Afghanistan Infrastructure and Rehabilitation Program contract allows up to 4 percent of contract costs to be billed as a fixed fee, which resulted in approximately \$224,000 in potential fees for TO 22.²² Although the contractor only completed 24 percent (8 out of 34) of the deliverables, leaving 76 percent (26 out of 34) incomplete, the contractor billed for—and USAID paid—the full fee allowable under the task order. Furthermore, according to the modification request by LBG/B&V, the contractor requested a \$70,000 discount from a supplier due to late equipment delivery. We reviewed communication between the contractor and USAID regarding the discount, but have seen no evidence that any cost savings were passed on to the U.S. government.

CONCLUSIONS

Although CERP guidance requires that program funds be used to respond to urgent needs with immediate, locally sustainable projects, nearly all of the CERP-funded equipment purchased to help DABS-Kandahar reduce losses and increase revenue is currently in storage with no plan for future installation. The equipment could be used to replace antiquated existing meters and allow access to electricity for more customers in Southern Afghanistan. However, USFOR-A and USACE-TAS, in coordination with DABS and USAID, did not adequately plan for the installation of the equipment, and USFOR-A and USACE-TAS failed to properly assess the technical capacity of DABS-Kandahar prior to purchasing the equipment. If the technical capacity of DABS-Kandahar prevents the proper installation, management, and use of the equipment, U.S. government agencies should work with DABS to comprehensively assess how the equipment can provide immediate commercialization and counterinsurgency effects for DABS throughout Afghanistan.

Additionally, although the USAID contractor for TO 22 only completed 24 percent of the deliverables, USAID paid the full fee allowable under the task order. The Federal Acquisition Regulation requires a contractor to complete and deliver a specified end product as a condition for payment of the entire fixed fee. In this case, however, USAID has paid the contractor a fee for work that was not completed and should therefore reassess whether the contractor is indeed due the maximum fee allowable.

RECOMMENDATIONS

To ensure that purchased electrical equipment will be used to repair, and expand electrical distribution grids, we recommend that the Commanding General for USFOR-A RC-S:

- 1. Put approximately \$12.8 million in equipment to better use by determining whether equipment procured as part of the starter and completion kits for Kandahar province can and should be installed in Kandahar (given CERP requirements for urgency, counterinsurgency effects, and capacity of DABS Kandahar to sustain the equipment), and:**
 - a. If so, develop and execute a clear plan for the installation of the equipment; this plan should include clear timelines, responsibilities, and funding streams for installation, and should be**

²²The initial negotiated fixed fee for the task order was approximately \$264,000. This is a fixed fee and should not fluctuate with contract costs. However, emails from responsible USAID officials to the contractor required the contractor to limit its fee to 4 percent of total contract costs. USAID provided disbursements as of July 31, 2012, but the contractor's estimate at completion provided to USAID on September 19, 2012 showed a total of almost \$5.61 million dollars spent under the contract, resulting in a fixed 4 percent fee of \$224,544.

executed as soon as possible to respond to the urgent needs and counterinsurgency objectives, as required, or;

- b. **If not, conduct a needs assessment for consideration of repurposing the equipment at locations other than those indicated in the original procurement documentation. Consideration of repurposing should respond to the requirement for timely installation based on DABS' needs, and capacity for installation and management in areas throughout the country.**

This recommendation should be performed in close coordination with USACE-TAS, USAID, DABS Corporate, and DABS-Kandahar.

To ensure that USAID's contractor is not paid a fee for work that was never performed and/or completed, we recommend that the USAID Mission Director for Afghanistan instruct the USAID Mission Afghanistan's Office of Acquisition and Assistance to, before closing out TO 22:

2. **Complete a comprehensive assessment of TO 22 deliverables and contractor performance. Using the results of this assessment, USAID should negotiate the appropriate fixed fee associated with TO 22 that should be paid and seek reimbursement for any fee paid in excess of the negotiated amount in order to hold the contractor accountable for incomplete deliverables.**

AGENCY COMMENTS

USFOR-A and USAID provided written comments on a draft of this report. These comments are reproduced in appendices IV and V, respectively. USFOR-A, USACE-TAS, and USAID also provided technical comments, which we incorporated into our final report, as appropriate.

USFOR-A concurred with our first recommendation. According to USFOR-A, RC-S has developed a plan for the installation of the equipment that was approved by the RC-S Commanding General and includes timelines, responsibilities, and funding streams for installation. Although we have not been provided a copy of the approved plan, these steps appear to meet the intent of our recommendation.

USAID concurred with our second recommendation and stated that the Office of Acquisition and Assistance is pursuing a course of action with the contractor to negotiate an appropriate fixed fee for work completed under TO-22.

APPENDIX I - SCOPE AND METHODOLOGY

In July 2012, the Special Inspector General for Afghanistan Reconstruction (SIGAR) initiated an audit of U.S. government efforts to assist in the commercialization of Da Afghanistan Breshna Sherkat (DABS). Specifically, SIGAR sought to (1) identify the goals of U.S. government projects to commercialize DABS, particularly in Kabul and Kandahar; assess the extent to which metrics are capturing progress of those projects; and evaluate the extent to which completed and ongoing projects have achieved or are achieving stated objectives; (2) assess the transition from completed DABS commercialization projects to recently awarded/planned projects, and the extent to which planned projects consider lessons learned; and (3) evaluate the level of coordination among U.S. agencies involved in DABS commercialization and the extent to which commercialization projects implemented by those agencies contribute to a self-sustaining DABS. SIGAR issued this interim report to highlight issues related to DABS commercialization requiring immediate consideration prior to the issuance of our detailed audit report scheduled for issuance in early 2013. To accomplish our objectives, we reviewed relevant guidance, including the Federal Acquisition Regulation and the current Money as a Weapon System Afghanistan, dated March 2012. We reviewed all award, contract, disbursement, and obligation data for Task Order 22 (TO 22), all subsequent modifications, and all 8 Commander's Emergency Response Program (CERP) projects. We reviewed the closeout report for TO 22 and all CERP file documentation for the 8 CERP projects. We reviewed documents in the period between July 2010 and September 2012.

We performed data reliability tests to determine the accuracy and completeness of the computer-processed data in the report by comparing CERP project files to Military Interdepartmental Purchase Request data provided by U.S. Forces-Afghanistan (USFOR-A) and U.S. Army Corps of Engineers-Afghanistan Engineer District South (USACE-TAS). We also compared USAID disbursement and obligation data with TO 22 contract and modification documentation. We determined that the data were sufficiently reliable for the purposes of the audit objectives.

We assessed USFOR-A's internal controls over CERP project files to determine whether CERP project documentation in the Combined Information Data Network Exchange database was complete.

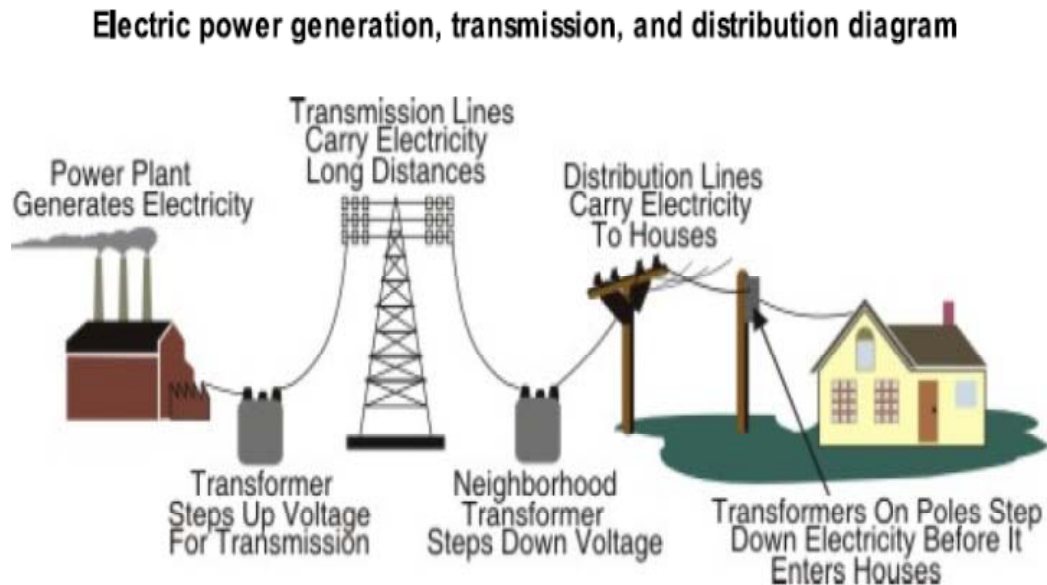
We interviewed officials at USAID Offices of Financial Management, Acquisition and Assistance, Economic Growth and Infrastructure, and Program and Project Development; Department of Defense Offices USFOR-A J9, USFOR-A Regional Command-South, USFOR-A Inspector General, and USACE-TAS. We also interviewed representatives from the World Bank, the Asian Development Bank, DABS Corporate, and current and former in-country Black & Veatch staff. We also viewed the equipment purchased by USACE with USFOR-A funds stored at the Shorandam Industrial Park outside of Kandahar City.

We conducted our audit work in Kabul, Afghanistan, and Washington, D.C., from July 2012 to October 2012, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed by SIGAR under the authority of Public Law 110-181, as amended, the Inspector General Act of 1978, and the Inspector General Reform Act of 2008.

APPENDIX II - LOSSES IN ENERGY DISTRIBUTION

The majority of energy losses occur in the distribution phase of energy flow to customers. Figure I shows how energy flows from generation to transmission and distribution.

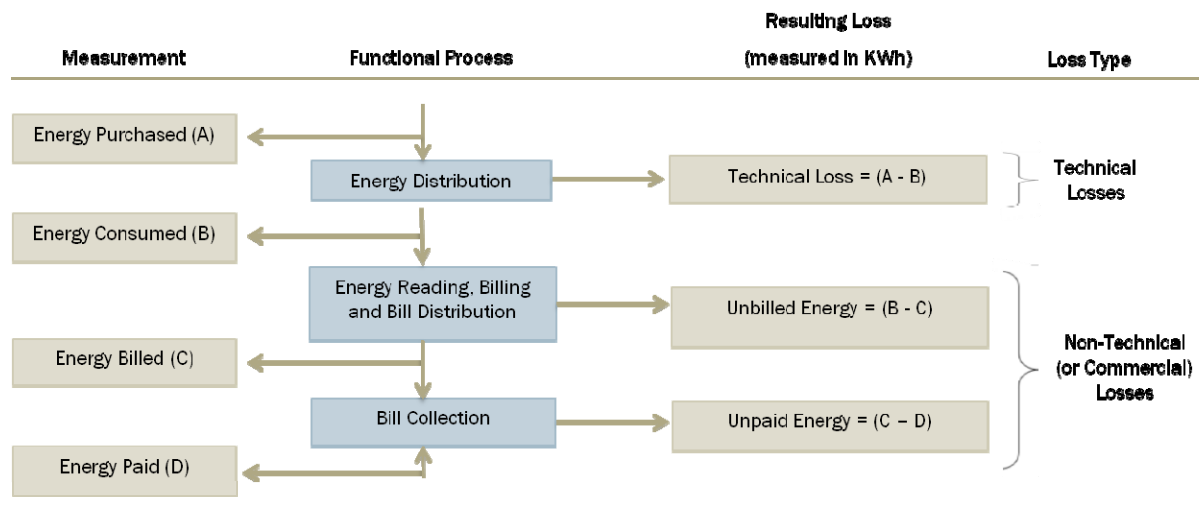
Figure I - Energy Flow from Generation to Distribution



Source: National Energy Education Development Project (Public Domain).

Losses in the distribution of energy occur for technical and non-technical (or commercial) reasons, and utilities must address both types simultaneously (not one or the other) to increase revenues and achieve full cost recovery. Figure 2 demonstrates where technical and non-technical losses occur in the distribution system.

Figure II - Losses in the Distribution System



Source: USAID document for the South Asia Regional Initiative for Energy

APPENDIX III - STATUS OF DELIVERABLES FOR USAID TASK ORDER 22

The table below shows the status of deliverables for Task Order 22 (TO 22). Deliverables completed are those USAID provided to SIGAR found to be sufficient to meet the deliverable as required by the task order and all modifications. See table I.

Table I - Status of Deliverables for USAID Task Order 22

	Deliverable	Modification #	Date Due	Status
1	Monthly reports	Initial Task Order	Within 5 days after the end of each month	Completed
2	Annual work plan		Within 15 days of contract award; USAID will respond within 5 calendar days and anticipate a finalized work plan within 30 days of award	Completed, but not on time
3	Final report		Not specified	Incomplete
4	Brief technical reports		Not specified	Completed
5	Baseline estimates of energy input to KED and cash collection		Not specified	Completed
6	Training materials for senior DABS, KED, and Afghanistan government officials		Not specified	Incomplete
7	Technical reports/training materials related to DABS corporate development		Not specified	Incomplete
8	Baseline study showing current production of energy and sales with comparison to DABS-Kandahar documented revenue	Modification 1	No later than 90 days after award	Completed
9	Establishment of employee distribution loss reduction qualifications program for up to 30 staff		No later than 1 year after award	Incomplete
10	Well-trained distribution loss prevention team established within DABS-Kandahar with key performance indicators and incentive system		No later than 240 days after award	Incomplete

Table I - Status of Deliverables for USAID Task Order 22

	Deliverable	Modification #	Date Due	Status
11	Detailed designs, including bills of quantity of hardware requirements, for Kandahar technical distribution system improvements	Modification 1	No later than 120 days after award	Completed
12	System for calculating electricity tariffs that would allow for full cost recovery and a schedule for implementation		No later than 1 year after award	Incomplete
13	Plan designed and implemented to facilitate DABS-Kandahar management structure/accounting system towards commercial viability		No later than 90 days after award	Incomplete
14	Draft report on bulk and boundary metering with results of technical/non-technical loss calculations and plan for recovering losses	Modification 2	No later than November 17, 2011	Incomplete
15	Final report on bulk and boundary metering with results of technical/non-technical loss calculations and plan for recovering losses incorporating USAID review comments		No later than December 20, 2011	Incomplete
16	Draft customer meter installation plan, detailing meter replacement plan		No later than December 1, 2011	Incomplete
17	Final customer meter installation plan incorporating USAID review comments		No later than December 20, 2011	Incomplete

Table I - Status of Deliverables for USAID Task Order 22

	Deliverable	Modification #	Date Due	Status
18	List of employees trained in equipment maintenance	Modification 2	Upon COTR approval	Incomplete
19	Written set of goals for monitoring production, sales, and revenue	Modification 3 (revised from Modification 1)	No later than 90 days after award	Incomplete
20	Implemented plan to procure 13 computers		No later than November 15, 2011	Incomplete
21	Normalize Pooyesh customer database		No later than November 15, 2011	Incomplete
22	Implement customer cash receipting system		No later than November 15, 2011	Incomplete
23	Implement customer care module		No later than November 15, 2011	Incomplete
24	Implement revenue management module		No later than November 15, 2011	Completed
25	Procurement and installation of 231 boundary meters	Modification 3 (revised from Modification 2)	Not specified; meters intended to provide information on losses for report. Draft report no later than November 17, 2011; final report no later than December 20, 2011.	Incomplete
26	Installation of a data center and train DABS employees on how to collect and use data generated by the boundary meters		Not specified; meters intended to provide information on losses for report. Draft report no later than November 17, 2011; final report no later than December 20, 2011.	Incomplete

Table I - Status of Deliverables for USAID Task Order 22

	Deliverable	Modification #	Date Due	Status
27	Training plan and attendance sheets for all trained DABS employees on bulk and boundary meeting	Modification 3 (revised from Modification 2)	Training plan no later than October 15, 2011. All training to be completed no later than December 31, 2011.	Incomplete
28	Pilot program, including implementation plan, for SMS billing		Initial tranche of no less than 500 bills delivered by SMS before November 30, 2011. SMS billing implementation plan before December 15, 2011.	Incomplete
29	Syllabus and training materials for each seminar/training session (use and maintenance of IT systems)		No later than November 30, 2011	Incomplete
30	Complete equipment inventory of all items procured and delivered to DABS		Upon COTR approval	Incomplete
31	Evidence of training and capacity building (use and maintenance of IT systems, such as testing results)		No later than November 30, 2011	Incomplete
32	Roster of participants for training and capacity building (use and maintenance of IT systems)		No later than November 30, 2011	Completed
33	Transition manual/handover plan	Modification 3	No later than December 15, 2011	Incomplete
34	DABS office improvements		No later than October 31, 2011	Incomplete

Source: SIGAR analysis of TO 22, modifications, and related documentation.

^aAlthough a closeout report, dated March 22, 2012, was completed, it omits a thorough discussion of specific deliverables. The report therefore does not appear to meet the requirement for a final report as stipulated in the contract.

APPENDIX IV - COMMENTS FROM U.S. FORCES-AFGHANISTAN, REGIONAL COMMAND-SOUTH

UNCLASSIFIED



HEADQUARTERS
UNITED STATES FORCES-AFGHANISTAN
KABUL, AFGHANISTAN
APO AE 09356

USFOR-A J9

SUBJECT: SIGAR Draft Report–Dated December 2012, SIGAR 13-2 (Project 063A)

1. Bottom Line Up Front: USFOR-A concurs with the recommendation provided in this report. We acknowledge that USFOR-A, RC South, authorized the use of CERP to procure approximately \$12.8 million in equipment as part of the starter and completion kits for Kandahar province. Equipment is currently being secured under supervision of USACE, as DABS did not have technical capacity to install the equipment without support and supervision of qualified contractors. RC South has developed a clear plan for the installation of the equipment. This plan has been approved by the Commanding General of RC South and includes clear timelines, responsibilities, and funding streams for installation. RC South is executing this plan in a prudent and phased approach.
2. As documented in RC South correspondence (see enclosure), while RC South concurs with overall recommendation that they develop a plan to ensure the equipment that has been purchases is properly used, the overall SIGAR report does contain some errors in fact and contradictions.
3. POC this memorandum is the undersigned at bryan.a.groves@afghan.swa.army.mil and DSN 318-449-4905.


BRYAN GROVES
COL, CA
J9, USFOR-A

Encl: CJTF-3-STAB EXSUM (SIGAR) Audit 13-2

UNCLASSIFIED

APPENDIX V - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



MEMORANDUM

December 2, 2012

TO: John F. Sopko
Special Inspector General for
Afghanistan Reconstruction (SIGAR)

FROM: Brooke Isham, Acting Mission Director *B.Isham*

SUBJECT: Draft SIGAR Interim Report titled "Afghanistan's National Power Utility: \$12.8 Million in DoD-Purchased Equipment Sits Unused and USAID Paid a Contractor for Incomplete Work" (SIGAR Audit 13-2)

REF: SIGAR Transmittal email dated 11/10/2012

Thank you for providing USAID an opportunity to review the subject draft report. Our comments on the recommendations and contents of the report follow.

PART I: GENERAL COMMENTS ON THE DRAFT REPORT

1. USAID and the U.S. Army Corps of Engineers (USACE) play substantially different roles in the provision of assistance in the power sector. USAID is implementing the majority of large physical power infrastructure projects, but is transitioning to a full on-budget approach, through which the agency supports Da Afghanistan Breshna Sherkat (DABS) in the procurement and management of contracts. USAID is also investing significant effort and funding in the "soft side", e.g., capacity building, training, and commercialization. USACE, as an implementing agency, has focused on completing procurement and contracting/managing specific projects with some associated training.
2. The report seems to conflate USAID and USACE in various comments and conclusions. USAID and USACE are not interchangeable entities. Each has its own procurement processes, contracting modalities, and contract-oversight needs and requirements. USAID strives to coordinate with USACE but lacks any direct authority or influence over procurement or contract-management

See SIGAR
comment 1

processes. USAID had no involvement in the implementation or award of CERP projects.

3. It is misleading to suggest that, because DABS Kandahar lost revenue between November 2010 and October 2011 in the amount of \$4.3 million--SIGAR's value calculation of aggregate technical and commercial [ATC] losses discussed in pages 3-4-- the TO 22 activity had no effect in improving commercial operations. USAID does not dispute that DABS Kandahar still has unacceptably high levels of ATC losses, perhaps up to 60 percent, but the trend is one of very solid progress.

Work under TO 22 helped DABS better manage its revenue-protection processes, for example. As documented in Attachment 1, significant assistance was devoted under TO 22 to establishing loss baselines, strengthening revenue management, and improving customer billing and customer service. Comparing full year figures for 1389 (April 2010 – March 2011) with those for 1390 (April 2011 – March 2012), DABS Kandahar had a 58 percent increase in power supplied and doubled its revenues. The increase in revenue over that year was \$5,158,000, despite the fact that TO 22 was not expected to make DABS Kandahar a cost-recovering entity but, rather, to take initial steps moving it in that direction. TO 22 easily has accomplished this objective.

See SIGAR
comment 2

4. Confusion over who was supposed to install metering equipment or create an implementation plan may be a misinterpretation of what each agency set out to accomplish. USAID's SOW clearly states that TO 22 would not include installation of the equipment. The USACE procurement was not based on any pre-condition, agreement, or commitment by USAID to plan or implement the installation. The decision to procure this equipment was made independently of USAID. Our contractor for TO 22 did complete a "plan" and the "plan" provides a technical schematic of what goes where, not a plan of what agency should take on the obligation of funding and implementing the installation.
5. Some of the USACE CERP-funded materials described in this report already are being utilized by the USAID-funded Kandahar Helmand Power Program (KHPP) project for medium-voltage improvements in Kandahar. The KHPP SOW originally included procurement of some materials that duplicated materials procured by USACE. Accordingly, USAID has adjusted its planned procurement and is maximizing the

See SIGAR
comment 3

use of the materials already in the warehouse -- in coordination with DABS, implemented by DABS work teams with B&V oversight, and in coordination with USACE--to improve the medium-voltage system in Kandahar. The KHPP project is making maximum use of this equipment to serve the intended purpose.

See SIGAR
comment 4

6. On page 8 paragraph 1, the report states that "no agency determined the capacity of the Afghan stakeholder, DABS, to install and maintain the equipment..." In fact, USAID conducted extensive reviews of DABS capacity, and has designed projects to specifically invest in capacity development. USAID currently is funding the International Finance Corporation (IFC) to work with DABS to design and award a management contract to help DABS manage the physical resources and the commercialization, operations, and maintenance challenges in the Southern Electrical Power System (SEPS) effectively. Best use of the remaining CERP-funded materials and meters will be included in the IFC assessment.

See SIGAR
comment 5

USAID is supporting this initiative because, in discussion with DABS, we have concluded that DABS lacks the manpower and technical skills to operate and maintain the system at this point. DABS needs rigorous assistance in technical, financial, commercial, and operational management. In the meantime, our ongoing KHPP contract includes elements that support capacity development. Our prime contractor for KHPP trains and mentors DABS Kandahar staff while implementing Kandahar system upgrades.

PART II: COMMENTS ON SIGAR'S RECOMMENDATIONS

To ensure that USAID's contractor is not paid for work that was never performed and/or completed, we recommend that the USAID Mission Director for Afghanistan instruct the USAID Mission Afghanistan's Office of Acquisition and Assistance to, before closing out TO 22:

- 2. Complete a comprehensive assessment of TO 22 deliverables and contractor performance. Using the results of this assessment, USAID should determine the appropriate percentage of fixed fee associated with TO 22 that should be paid and seek reimbursement for any fee paid in excess of the appropriate amount in order to hold the contractor accountable for incomplete deliverables. USAID should also determine if the contractor received a \$70,000 discount from the supplier for late*

equipment delivery, and, if so, seek reimbursement for those funds from the contractor.

Mission Comments:

- A. USAID concurs with the intent of the recommendation but we request that the recommendation be modified to accurately reflect the Federal Acquisition Regulation (FAR) guidance for cost-reimbursement fixed fee completion type contracts.

SIGAR's phrase, "[t]o ensure that USAID's contractor is not paid for work that was never performed and/or completed" is misleading, as pursuant to the FAR, under a cost-reimbursement type contract, USAID would pay the contractor only for costs that are reasonable, allowable, and allocable.

The issue at hand is that a negotiated fee was fixed at the inception of the contract [TO 22] and was based on deliverables to be completed by the contractor. Since the contractor did not perform or complete all deliverables, the fixed fee should not have been paid in full but rather renegotiated based on the changes in the work performed.

When SIGAR states "...USAID should determine the appropriate percentage of fixed fee...", this phrase is also inconsistent with the FAR [16.306] wherein it is noted, "[t]he fixed fee does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract."

In order to address the foregoing issues, USAID recommends that the wording be modified as follows:

"To ensure that USAID's contractor is not paid a fee for work that was never performed and/or completed, we recommend that the USAID Mission Director for Afghanistan instruct the USAID Mission Afghanistan's Office of Acquisition and Assistance to, before closing out TO 22:

2. Complete a comprehensive assessment of TO 22 deliverables and contractor performance. Using the results of this assessment, USAID should negotiate the appropriate fixed fee for the changed work under TO 22 and should seek reimbursement for any fee paid in excess of the negotiated amount in order to hold the contractor accountable for incomplete deliverables."

See SIGAR comment 6

USAID has taken the following actions to address the above recommendation:

1. USAID's Office of Economic Growth and Infrastructure recently completed an analysis of what the contractor actually delivered (please see Attachment 1, Review of Task Order 22 Reports and Deliverables). The analysis, based on actual verifiable data or products, suggests that 27 of 34 deliverables, or approximately 80 percent of the deliverables, were fully or partially completed. In several cases, the lack of deliverable completion occurred for reasons beyond the contractor's control, such as DABS's decision to switch from the Pooyesh to eBreshna software. The attached analysis shows USAID's estimate of the progress made for each deliverable under TO 22. See SIGAR comment 7
2. Regarding negotiation of the fixed fee for the changed work, the Office of Acquisition and Assistance (OAA) is pursuing the foregoing course of action with the contractor. As noted in the SIGAR report, on October 24, 2012, via letter OAA-LBG/BV-2012-227, the Louis Berger Group/Black and Veatch Joint Venture (JV) was informed that USAID intended to follow-up concerning the fixed fee once the Contracting Officer's Representative had sufficient time to review all the deliverables submitted to date. USAID has set a target date of February 28, 2013, for completion of negotiations with the JV.

It should also be noted, as SIGAR mentions in the report (page 9, paragraph 4), that USAID has not paid invoices up to the full contract ceiling. To date, USAID has paid only \$5.8 million out of \$6.8 million (85 percent) total estimated costs. Any excess payments to the JV will be appropriately recovered, as soon as negotiations are completed.

- B. Concerning the last part of Recommendation 2 that states "*USAID should also determine if the contractor received a \$70,000 discount from the supplier for late equipment delivery, and, if so, seek reimbursement for those funds from the contractor*", on November 14, 2012, an OAA Senior Acquisition Specialist, sent a request via e-mail to Robert Luke (B&V Project Manager), for full disclosure and documentation confirming whether any discount, in fact, was received from the supplier. On November 16, 2012, Mr. Luke responded and stated that although the JV requested a discount of \$70,000, the vendor (Uskom Komunikasyon Sistemleri) was not contractually See SIGAR comment 8

obligated to give the JV a discount for late delivery. Nevertheless, Uskom gave a special discount of \$20,722.

The discount was passed on to USAID via Invoice Number 62, dated April 12, 2012, that included Uskom's claim of \$757,427, net of the \$20,722 discount. Invoice Number 62 was paid by USAID on May 14, 2012, under Voucher Number 306123128TD. Please see Attachment 2 for more detailed information. USAID considers the questioned \$70,000 discount resolved, and no further action is needed. Therefore, we request deletion of the last sentence in Recommendation 2.

- C. With regard to SIGAR's Recommendation 1.b that requires USFOR-A to *“conduct a needs assessment for consideration of repurposing the equipment at locations other than those indicated in the original procurement documentation”*, USAID notes, as discussed in Part I.6 of this memo, some of the equipment currently is used by DABS for medium-voltage distribution system improvements under the guidance of B&V as part of the KHPP project.

Furthermore, USAID has contracted with IFC to work with DABS to complete an assessment of needs and resources in SEPS, and to design a management contract for SEPS. It is expected that DABS, prior to or after this management contract is awarded, effectively will utilize the balance of this equipment within SEPS. USAID believes that another assessment would be redundant, and an ineffective use of time and money. This recommendation, if carried out, is likely to further complicate the issue and increase costs.

See SIGAR
comment 9

Attachments:

1. Review of Task Order 22 Reports and Deliverables
2. Documentation related to the Questioned \$70,000 discount

cc: OAPA
CDDEA

SIGAR Responses to USAID's December 2, 2012 Memorandum

1. The report accurately characterizes agency responsibilities, and USAID's comment provides no evidence or specific instance to demonstrate that our report conflates USAID and USACE authorities or processes.
2. The report does not state that TO 22 activities had no effect in improving commercialization, and we agree with USAID that DABS Kandahar still has unacceptably high levels of ATC losses. Nevertheless, USAID does not provide evidence that TO 22 activities resulted in the asserted increases in supplied power or revenues, and USAID mischaracterizes the cause for the increases. In fact, we would expect power generation and revenues to increase in Kandahar in 2011, but those increases likely have nothing to do with TO 22 activities. As we reported in SIGAR 12-12, CERP-funded power plants were built and commissioned in Kandahar in the third quarter of fiscal year 2011, and the U.S. government (through the Afghanistan Infrastructure Fund) continues to provide up to 27 megawatts of "free" electricity to DABS Kandahar; DABS Kandahar then collects revenues based on the U.S.-funded energy.
3. The report does not state that the TO 22 contractor was responsible for installation, but the report clearly states, as indicated by USAID, that the contractor was required to complete an installation plan. On multiple occasions, we requested a copy of the installation plan that was required by the TO 22 Statement of Work. USAID representatives told us that the plan was not completed. Further, in response to an earlier draft of this report, USAID provided all deliverables completed by the contractor. USAID did not provide a copy of the plan at that time, and we still have not seen evidence of its completion.
4. As indicated in the report, and according to USACE, very little of the equipment has been installed.
5. In discussions with USFOR-A and USACE, and in their formal comments on this report, the agencies did not report that the International Finance Corporation was conducting an assessment of best use of the CERP-funded materials. Moving forward, we hope that USAID shares its plans and the forthcoming assessment with key stakeholders, including USFOR-A and USACE, because USAID has no authority or responsibility for CERP funds.
6. We agree that the minor changes help clarify the recommendation, and we made the requested revisions, as appropriate, in the final draft.
7. USAID's assessment shows that the contractor only completed 17 deliverables, or 50 percent. As noted by USAID, the remaining 17 deliverables were either not completed or partially completed. Further, USAID's analysis cites several deliverables as "completed," without providing any evidence to SIGAR. Therefore, we maintain that USAID should hold the contractor responsible for the deliverables and seek appropriate reimbursement.
8. Because USAID heeded our recommendation and took action to explore and resolve the issue, we deleted this line from the recommendation in the final report.
9. CERP is a DOD program, managed by USFOR-A; thus, it remains unclear why USAID would independently commission an assessment for the best use of CERP-procured equipment that resides in USACE controlled storage. Further, in discussions with USFOR-A and USACE, and in their formal comments to this report, the agencies did not report that the International Finance Corporation was conducting an assessment of best use of the CERP-funded materials, and rather reported that no plan was in place for installation of the equipment. Therefore the recommendation is not redundant.

This audit was conducted under project code
SIGAR-063A.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

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

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

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

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

Public Affairs

Public Affairs Officer

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