

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-56 Financial Audit

USAID's Mining Investment and
Development for Afghan Sustainability
Project: Audit of Costs Incurred by ECC
Water & Power LLC



JUNE
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 31, 2013, the U.S. Agency for International Development (USAID) awarded a 4-year task order worth \$41.7 million to ECC Water & Power LLC (ECC) to implement the Mining Investment and Development for Afghan Sustainability (MIDAS) project. The project's purpose was to provide technical support and assistance to strengthen the institutional capacity of the Afghan Ministry of Mines and Petroleum and private sector entities in extractive industries and energy development. The task order was modified 13 times, decreasing the total cost to \$38.7 million.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$8,906,538 in expenditures charged to the contract from January 1, 2016, through March 31, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in ECC's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether ECC has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ECC's Special Purpose Financial Statement (SPFS). See Castro's report for the precise audit objectives.

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

June 2018

USAID's Mining Investment and Development for Afghan Sustainability Project: Audit of Costs Incurred by ECC Water & Power LLC

SIGAR 18-56-FA

WHAT THE AUDIT FOUND

Castro did not identify any material weaknesses or significant deficiencies in ECC's internal controls, or any instances of noncompliance with the terms and conditions of the task order. Accordingly, Castro did not identify any questioned costs, which could have consisted of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Castro reviewed a prior USAID-funded audit report of costs ECC incurred on the MIDAS project. The report identified three prior findings that needed corrective action. Based upon Castro's review, ECC took adequate corrective actions to address the findings.

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

WHAT SIGAR RECOMMENDS

Castro did not report any findings related to the costs ECC incurred on its task order to implement the MIDAS project for the period from January 1, 2016, through March 31, 2017. Therefore, SIGAR is not making any recommendations.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 14, 2018

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

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by ECC Water & Power LLC (ECC) under a U.S. Agency for International Development (USAID) task order to implement the Mining Investment and Development for Afghan Sustainability (MIDAS) project.¹ Castro's audit covered \$8,906,538 in expenditures charged to the contract from January 1, 2016, through March 31, 2017. Our contract with Castro required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Castro did not report any findings related to the MIDAS project. Therefore, SIGAR is not making any recommendations.

The results of Castro's audit are in the attached report. We reviewed Castro's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on ECC's Special Purpose Financial Statement. We also express no opinion on the effectiveness of ECC's internal control or compliance with the contract, laws, and regulations. Castro is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Castro did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-113)

¹ USAID awarded task order no. 306-TO-13-00003 to implement the MIDAS project. Its purpose was to provide technical support and assistance to strengthen the institutional capacity of the Afghan Ministry of Mines and Petroleum and private sector entities in extractive industries and energy development.



**Financial Audit of Costs Incurred
by ECC Water & Power LLC, Under
Task Order No. 306-TO-13-00003 Mining Investment and
Development for Afghan Sustainability Project
For the Period from January 1, 2016 through March 31, 2017**

May 17, 2018

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**ECC Water & Power LLC
Financial Audit of Costs Incurred
Task Order No. 306-TO-13-00003
Mining Investment and Development for Afghan Sustainability Project
For the Period from January 1, 2016 through March 31, 2017**

ACRONYMS USED IN THIS REPORT

Acronyms

AICPA	American Institute of Certified Public Accountants
AIDAR	Agency for International Development Acquisition Regulation
CCN	Cooperating Country National
CFR	Code of Federal Regulation
CPFF	Cost-Plus Fixed Fee
ECC	ECC Water & Power, LLC
FAR	Federal Acquisition Regulation
GAGAS	Generally Accepted Government Auditing Standards
GDP	Gross Domestic Product
GIRoA	Government of the Islamic Republic of Afghanistan
MIDAS	Mining Investment and Development for Afghan Sustainability Project
MoM	Ministry of Mines
SER	Standard Exchange Rate
SIGAR	Special Inspector General for Afghanistan Reconstruction
SPFS	Special Purpose Financial Statement
USAID	United States Agency for International Development
USGS	United States Geological Survey

**ECC Water & Power LLC
Financial Audit of Costs Incurred
Task Order No. 306-TO-13-00003
Mining Investment and Development for Afghan Sustainability Project
For the Period from January 1, 2016 through March 31, 2017**

Transmittal Letter

May 17, 2018

To: Board of Directors
ECC Water & Power, LLC
1240 Bayshore Highway
Burlingame, CA 94010

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

From: Castro & Company, LLC
Alexandria, VA

Subject: Financial Audit of Costs Incurred by ECC Water & Power LLC (ECC) under the United States Agency for International Development (USAID) funded Mining Investment and Development for Afghan Sustainability (MIDAS) Project under Task Order No. AID-306-TO-13-00003, for the period from January 1, 2016 to March 31, 2017.

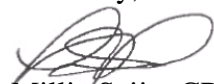
We hereby provide to you our final report, which reflects results from the procedures we completed during our Financial Audit of Cost Incurred by ECC under the USAID funded MIDAS Project, Task Order No. AID-306-TO-13-00003 for the period January 1, 2016 through March 31, 2017.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statements, Report of Internal Control, and Report on Compliance. We do not express an opinion on the summary or any information following our reports.

On March 13, 2018, we provided the SIGAR a draft report reflecting our audit procedures and results. We also sent a copy of the draft report to ECC Water & Power LLC (ECC) on May 2, 2018.

Thank you for providing us the opportunity to work with you and to conduct the audit of the ECC's task order.

Sincerely,



Millie Seijo, CPA
Partner

Summary

Background

On March 31, 2013, the U.S. Agency for International Development (USAID) entered into Task Order No. 306-TO-13-00003 with ECC Water & Power LLC (ECC) to implement the Mining Investment and Development for Afghan Sustainability (MIDAS) project. The Task Order was originally awarded for a total cost of \$40,068,214 and a fixed fee of \$1,602,728. The total cost plus fixed fee amount was \$41,670,942 for the period from March 31, 2013, through March 31, 2017. This Task Order was modified 13 times during the period under audit, including several modifications resulting in a revision to the budget. The total original cost decreased to \$36,975,958 while the fixed fee increased to \$1,742,362 for a total estimated cost of \$38,718,320.

For the period from January 1, 2016 through March 31, 2017, the total costs incurred for the MIDAS Project were \$8,482,037 plus a fixed fee of \$424,501, for a total costs plus fixed fee of \$8,906,538

The purpose of the MIDAS project is to provide technical support and assistance aimed at strengthening the institutional capacity of the Ministry of Mines and relevant private sector entities related to extractive industries and energy development. The program will develop effective policies for the Afghan mining sector as well as improve the Afghan government's ability to monitor and facilitate domestic and international investment in the mining sector. It will also build the local capacity to plan, design, and implement mining concessions through a transparent tender process.

ECC is an employee-owned business founded in 1985. ECC's mission is to provide high quality, comprehensive, and competitive design-build, construction, environmental remediation, engineering, and design management, energy, munitions response, and international development services to their clients.

Work Performed

Castro & Company, LLC (Castro & Co) was engaged by SIGAR to conduct a financial audit of costs incurred for Afghanistan by ECC, under the MIDAS Project, Task Order No. AID-306-TO-13-00003, for the period from January 1, 2016 to March 31, 2017.

Objectives as Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether ECC's Special Purpose Financial Statement for the task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the

task order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of ECC's internal control related to the task order, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of our audit covers the incurred costs by ECC under Task Order No. 306-TO-13-00003 for the period of January 1, 2016 through March 31, 2017. We examined the Special Purpose Financial Statement and the underlying financial records to ensure that the amounts reported in the Statement were adequately supported. In addition, the following areas were considered to have a direct and material effect on the audit objectives under review:

- Budget Management
- Cash Management
- Disbursements (payroll and non-payroll transactions)
- Financial Reporting
- Procurement and Inventory Management

The records were made available for our review at ECC's office in Burlington, CA. Castro & Co did not become aware of any scope limitations as of the date of this report related to our audit of Task Order No. 306-TO-13-0003.

Methodology

To meet the audit objectives, Castro & Co identified the applicable criteria against which to test the Schedule and supporting financial records and documentation through a review of the task order. In addition, Castro & Co interviewed ECC's management and staff; reviewed prior year reports, policies and procedures, and organizational charts to gain an understanding of the normal procedures and system of internal controls established by ECC to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Castro & Co performed this audit in accordance with generally accepted government auditing standards

(GAGAS), as published in the Government Accountability Office's Government Auditing Standards 2011 revision (or "Yellow Book"). In addition, the following areas were determined as directly and materially related to the Statement and other audit objectives, and therefore, were included within the audit program for detailed evaluation:

- Administrative oversight, controls and fraud risk assessment - audit steps included, but were not limited to: obtaining and reviewing background documents (contract and modifications, any subawards or vendor contracts, chart of accounts, policies and procedures, prior audit reports, budgets, etc.) from ECC to obtain an understanding of its environment to properly plan the audit, preparing sampling methodology, conducting an entrance conference, interviews, walkthroughs and review of documentation for process cycles; preparing a risk assessment for each assertion as it pertains to the Special Purpose Financial Statement, and selecting a sample of transactions to test.
- Budgetary compliance - audit steps included, but were not limited to: interviews with ECC's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls, and comparing budget versus actual to identify unexplained overruns or shortfalls.
- Disbursements, including payroll and travel costs - audit steps included, but were not limited to: interviews of ECC's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls, review of supporting documentation for sample selections to assess proper charges to the project and adequacy of supporting documentation. For payroll expenses, we reviewed personnel files for salary and fringe benefits information, timesheets for proper approval and accuracy of the hours charged, and payroll disbursements in relation to the sample selection. For travel expenses, the sample was tested for proper charges to the project, compliance with federal travel regulations and USAID regulations, the accuracy of expenses charged to the task order, and adequacy of supporting documentation (expense report and receipts).
- Financial reporting - audit steps included, but were not limited to: the review of monthly progress reports, quarterly reports, and annual summary reports for timeliness, approvals, and accuracy.
- Procurement and inventory management – audit steps included, but were not limited to: interviews of ECC's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls. For non-travel, non-payroll transactions audit steps included, but were not limited to, the review of the expense for proper charges to the project and adequacy of supporting documentation. We reviewed sample items for compliance with vetting requirements and with tax withholding requirements. From a procurement standpoint, this included a review of sample selection to ensure competitive bidding techniques were used by ECC. For inventory management, we cross-referenced the USAID-approved disposition plan to the acknowledgements signed by the receiving parties for the inventory items, if applicable.

- Billing - audit steps included but were not limited to: interviews of ECC's personnel and review of policies and procedures in relation to billing in order to determine existence and effectiveness of internal controls, reviewing a sample of invoices to determine compliance with USAID's AIDAR 752.7003 as part of compliance testing.
- Compliance - Through a review of policies and procedures, interviews, walkthroughs and substantive testing for previously mentioned areas of testing and direct request of deliverables, we determined compliance with the deliverables, contract clauses and laws and regulations. Castro & Co reviewed the overhead charges under the Indirect Costs and Fixed Fees categories totaling \$1,722,124 and \$424,501, respectively. Castro & Co also reviewed the methodology and obtained a sufficient understanding of ECC's proposed method of allocation. Testing of indirect costs was limited to a) determining whether ECC calculated indirect costs using the provisional rates approved by the Agreement Officer during the award negotiation process; and b) determining whether ECC calculated and recorded adjustments between estimated indirect costs and final actual indirect costs incurred as of the end of each fiscal year.

Castro & Co used sampling techniques to select expenditures and payroll samples to test for the allowability of incurred costs. Castro & Co reviewed procurement records to determine reasonableness of the costs incurred and compliance with laws and regulations and the terms of the task order, especially the vetting process. For the samples selected, we requested and received supporting documentation for compliance evaluation of incurred costs. We also reviewed submitted financial status reports for accuracy and compliance with reporting requirements.

Summary of Audit Results

Upon completion of Castro & Co's procedures, an unmodified opinion was issued on ECC's Special Purpose Financial Statement. As a result of our test, Castro & Co did not identify any internal control findings that were classified as significant deficiencies or material weaknesses, see Independent Auditor's Report on Internal Control on page 13. Castro & Co also reported on both ECC's compliance with the terms and condition of the task order and applicable laws and regulations, see Independent Auditor's Report on Compliance on page 15. No findings that need to be reported were identified.

This summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

Status of Prior Audit Reports

Castro & Co inquired of ECC, SIGAR, and USAID to determine if there have been prior audits, reviews, or assessments that may have an effect on our audit scope. Castro & Co also performed a search on the internet to see if there was publicly available audits or reviews related to the project under audit. As a result of our procedures, we obtained and reviewed the Audit of Costs Incurred by ECC related to the MIDAS Project, covering the period from March 31, 2013 through December 31, 2015. The audit was performed by Davis and Associates CPAs, PLLC. The audit

report identified three findings for which corrective action needed to be taken. In addition, ECC was required to submit a corrective action plan to USAID. Based upon Castro & Co's audit procedures, the corrective actions taken in relation to the identified findings was considered to be adequate. See Section I within this report for further information related to the findings and corrective action taken, as well as the status of those corrective actions.

Summary of Management Comments

ECC management was provided an opportunity to review and provide written comments on the audit report. As there were no audit findings issued, management did not provide written comments.

**Independent Auditor's Report
On the Special Purpose Financial Statement**

Board of Directors
ECC Water & Power LLC
1240 Bayshore Highway
Burlingame, CA 94010

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

We have audited the Special Purpose Financial Statement (the Statement) of ECC Water & Power LLC (ECC) under Task Order No. AID-306-TO-13-00003 for the period from January 1, 2016 to March 31, 2017 and the related notes to the Statement.

Management's Responsibility for the Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

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

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

The accompanying Statement was prepared to present the revenues earned and cost incurred by ECC pursuant to Task Order No. AID-306-TO-13-00003 described in Note 2, and is not intended to be a complete presentation of ECC's assets, liabilities, revenues, and expenses.

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, project revenues, costs incurred and reimbursed, items directly procured by USAID, and the balance for the indicated period, in accordance with the requirements established by SIGAR and in conformity with the basis of accounting described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated April 12, 2018, of ECC's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the Statement. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECC's internal control over financial reporting and compliance.

Restriction on Use

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



Castro & Company, LLC

April 12, 2018

Alexandria, VA

Special Purpose Financial Statement
ECC Water & Power LLC
Task Order No. AID-306-TO-13-00003
For the period from January 1, 2016 through March 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u>			<u>Notes</u>
				<u>Unsupported</u>	<u>Fee</u>		
<u>Revenues</u>							
Reimbursement	\$ 36,975,958	\$ 8,482,037					4
Award Fee	1,742,362	424,501					4
Total Revenue	\$ 38,718,320	\$ 8,906,538					
<u>Costs Incurred</u>							
Salaries and Fringe	\$ 9,286,840	\$ 2,997,062	\$ -	\$ -	\$ -		5
Supplies, Materials, Equipment, etc.	546,498	32,605	-	-	-		5
Outside Services	13,652,758	2,430,709	-	-	-		5
Travel	712,770	126,541	-	-	-		5
Other Direct Costs			-	-	-		5
	6,745,179	1,172,996					
Total Direct Costs	\$ 30,944,045	\$ 6,759,913	-	-	-		
Total Question Costs			-	-	-		
<u>Indirect Costs</u>							
Overhead and G&A	6,031,913	1,722,124					6
Total Costs Incurred	\$ 36,975,958	\$ 8,482,037					
Total Fixed Fees Charged	1,742,362	424,501					
Total Costs Plus Fixed Fee	\$ 38,718,320	\$ 8,906,538					
Outstanding Fund Balance		<u>\$ -</u>					7

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

ECC Water & Power LLC (ECC)
Notes to the Special Purpose Financial Statement
For the period from January 1, 2016 through March 31, 2017¹

1. The Company

Environmental Chemical Corporation (ECC) is located at 1240 Bayshore Highway, Burlingame, California. ECC is a general contractor engaged in military construction, environmental remediation, and removal of explosive ordnance, nationally and internationally. ECC's primary operations are conducted out of offices in California, Colorado, Texas, Massachusetts, New Jersey, Virginia, and Hawaii. ECC's business base consists mainly of contracts awarded by agencies for the United States Government. ECC's sales for fiscal year ending December 31, 2016 were \$344 million, of which approximately 91 percent was attributed to Government and foreign sales.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statements (the Statement) includes costs incurred under Task Order No. AID-306-TO-13-00003 for the period from January 1, 2016 through March 31, 2017. The information in the Statement is presented in accordance with requirements specified by USAID and is specific to the aforementioned task order. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the presentation of ECC's basic financial statements.

Basis of Accounting

The Statement reflects the revenues earned and expenses incurred by ECC under the aforementioned task order. The Statement has been prepared following an accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Accounting System Dates

The Statement reflects all billable costs incurred under Task Order No. AID-306-TO-13-00003, for the period from January 1, 2016 through March 31, 2017. Only transactions and/or adjustments incurred in accounting periods during the audit period have been included in the Statement (Indirect rate adjustments from provisional to actual rates for a fiscal year are posted in the same fiscal year before closing the books).

¹ Notes to the Special Purpose Financial Statement were developed by and are the responsibility of ECC Water & Power LLC management.

Currency

The Statement is presented in U.S. dollars. Expenditures incurred in currencies other than U.S. dollars have been translated into U.S. dollars. ECC uses market data to establish a Standard Exchange Rate (SER) to translate local currency into U.S. dollars. The process of how Finance determines the exchange rate for the deduction or other contracted payment and/or taxes is as follows:

- a) Finance will check the Da Afghanistan Bank website to obtain the daily exchange rate for changing U.S. Dollars to GIROA Afghani to determine the monthly average rate.
- b) Based on the actual payroll cut-off date, ECC needs the exchange rate from the 26th of the month to the 25th of next month.
- c) The total daily exchange rate divided by the total number of days will determine the actual exchange rate that Finance uses.

3. Estimated Cost

CLIN	Description	CLIN Type	Estimated Cost Price	Fixed Fee on CPFF and Profit on Drilling	Total
1	MIDAS – Technical Support Services	CPFF	\$ 35,579,620	\$ 1,602,728	\$ 37,182,348
2	MIDAS – Drilling Services	FFP	\$ 1,396,338	\$ 139,634	\$ 1,535,972
Task Order Ceiling			\$ 36,975,958	\$ 1,742,362	\$ 38,718,320

* Summary of the Budget as per Modification No. 12.

4. Revenues

Revenues represent the amount of the funds to which ECC is entitled to receive for allowable, reimbursable costs incurred. Since the ECC award is a Cost-Plus Fixed Fee (CPFF) and FFP, revenues are recognized as earned.

5. Cost Categories

The following are the cost categories shown on the Statement by billing category as reported in client billings and accumulated in ECC's general ledger.

- Salaries and Fringe Benefits - These expenses are related to direct labor for personnel working at the Home and Field Offices.
- Travel - All expenses related to travel including, airfare, lodging, per diem, and transportation.
- Supplies, Materials, Equipment– These expenses are primarily associated with computer equipment acquisitions.
- Outside Services – These expenses are related to consultants or subcontractors that provide professional services in Afghanistan.

- Other Direct Costs – All expenses related to leases, bank fees, communications, and other miscellaneous categories.
- Indirect Cost – Indirect cost are costs that are associated with the overhead, administration, general operations, and management of the project.
- Fixed Fee - The fixed fee was established in the Task Order between ECC and USAID.

6. Indirect Cost Rate

The allowable indirect costs shall be reimbursed based on the negotiated provisional or predetermined rates and the appropriate bases.

The base of application for the indirect cost rate are as follows:

- a) Direct Labor is burdened with Fringe, Overhead, and G&A. Direct labor includes home office and expatriate labor but excludes non-Q-2 local contract labor.
- b) Non-Labor Direct Costs (Material, Equipment, Subcontracts, and ODCs) are burdened only with G&A.

7. Outstanding Fund Balance

The fund balance presented on the Statement represents the difference between revenues recognized and costs incurred during the implementation of the task order. During the period ending March 31, 2017 the outstanding fund balance amounted to \$0.

8. Subsequent Event

ECC evaluated subsequent events through May 2, 2018 through which the date the Statement was available to be issued. ECC concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

Independent Auditor's Report on Internal Control

Board of Directors
ECC Water & Power LLC
1240 Bayshore Highway
Burlingame, CA 94010

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

We have audited the Special Purpose Financial Statement for Afghanistan (the Statement) by ECC Water & Power LLC (ECC) under the Mining Investment and Development for Afghan Sustainability (MIDAS) Project, Task Order No. AID-306-TO-13-0000, for the period from January 1, 2016 through March 31, 2017, and the related notes to the Statement in accordance with generally accepted government auditing standards and have issued our report thereon dated April 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered ECC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of ECC's internal control. Accordingly, we do not express an opinion on the effectiveness of ECC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

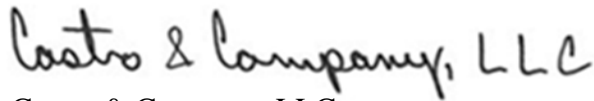
Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Restriction on Use

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

A handwritten signature in dark ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company, LLC

April 12, 2018

Alexandria, VA

Independent Auditor's Report on Compliance

Board of Directors
ECC Water & Power LLC
1240 Bayshore Highway
Burlingame, CA 94010

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

We have audited the Special Purpose Financial Statement for Afghanistan the (the Statement) by ECC Water & Power LLC (ECC) under the Mining Investment and Development for Afghan Sustainability (MIDAS) Project, Task Order No. AID-306-TO-13-00003 for the period from January 1, 2016 to March 31, 2017, and the related notes to the Statement in accordance with generally accepted government auditing standards and have issued our report thereon dated April 12, 2018.

Compliance

As part of obtaining reasonable assurance about whether ECC's Statement is free of material misstatement, including non-compliance due to fraud and errors, we performed tests of ECC's compliance with certain provisions of contract terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. In performing our testing, we considered whether the information obtained and tested during our audit may indicate the possibility of material fraud or abuse. During our testing, we did not identify instances of material fraud or abuse.

The results of our tests disclosed no instances of non-compliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Restriction on Use

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

A handwritten signature in black ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company, LLC

April 12, 2018

Alexandria, VA

Section I – Summary Schedule of Prior Audit, Review, and Assessment Findings

Castro & Co obtained and reviewed the Audit of Costs Incurred by ECC related to the MIDAS Project, covering the period from March 31, 2013 through December 31, 2015. The audit was performed by Davis and Associates CPAs, PLLC. The audit report identified three findings that could have a direct and material effect on the Statement. Based on discussions, we noted that ECC is in the process of drafting a statement of corrective actions related to material non-compliance to be submitted to USAID. Therefore, we have concluded that adequate corrective actions have been fully taken to address the findings.

The audit report disclosed total questioned costs in the amount of \$92,286, which included \$52,323 (Finding 3) of unsupported costs and \$39,963 (Finding 1 and 2) of ineligible costs for the period from March 31, 2013 through December 31, 2015. During our fieldwork, we confirmed with ECC management that the total questioned costs of \$92,286 was returned to USAID. ECC provided Castro & Co with the Management Decision Letter for review and to provide assurance that the funds were returned to USAID. Castro & Co conducted follow-up procedures related to the findings as note below:

- **Finding 1 - Ineligible Car Allowance Payment to Cooperating Country National (CCN) Personnel (Material Non-Compliance)**

Condition: While reviewing the selected transactions the auditors found that ECC paid “car allowances” to two selected CCN Personnel. The car allowances were not paid using a reasonable methodology, as ECC paid \$500 per month to one individual and \$1,500 per month to another. In addition, those transactions were done throughout the contract period and were included as part of the payroll. Finally, ECC was not able to provide documentation to support the methodology used on those car allowances.

Status: The Chief of Party met with the operations Director, HR Manager, and Contracts Manager to ensure car allowances for project personnel are no longer billed to USAID. We performed disbursement procedures over a sample of car allowances and we did not identify any instances where car allowances were paid to CCN personnel.

- **Finding 2 - Ineligible International Travel Costs (Material Non-Compliance)**

Condition: While reviewing the selected transactions the auditors found that ECC purchased business class airfare for the Minister of Mines & Petroleum study tour held in the United States in May 2015. The business class airfare for the trip was purchased despite the fact that USAID/CO authorized the lowest economy fare in its approval for the international travel.

Status: The Chief of Party spoke with all program staff and reiterated only economy flight tickets are authorized for purchase. Additionally, the Human Resources department was directed to review all International Travel requests to ensure any ticket purchases were in accordance with this directive. We performed procedures over a sample of travel disbursements and did not identify any instances where business class was charged under this task order.

- **Finding 3 - Unsupported, Lack of Compliance with vetting Requirements (Material Non-Compliance)**

Condition: While reviewing the selected transactions the auditors found that ECC issued purchase orders in two instances without receiving a response from USAID's Vetting Support Unit (VSU). ECC provided email communications to show that they submitted the requests prior to the award of purchase orders, but did not receive any response from VSU despite repeated follow ups.

Status: The Contracts Manager implemented protocols to ensure vetting (Mission Order 201.05 and updates) were requested and approved prior to award of any further contract awards. Additionally, we performed vetting procedures over vendors and subcontractors and did not identify any issues related to vetting.

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- 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
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