

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 19-57 Audit Report

**USAID's Power Transmission Expansion and
Connectivity Project: The Project is Behind
Schedule, and Questions Remain about the
Afghan Government's Ability to Use and
Maintain the New Power Infrastructure**



**SEPTEMBER
2019**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

A lack of reliable access to affordable electricity is one of Afghanistan's major economic challenges. The U.S. Agency for International Development (USAID) initiated its \$861.7 million Power Transmission Expansion and Connectivity (PTEC) project in 2011 with the goal of expanding and improving Afghanistan's power grid. USAID intended for PTEC to conclude by December 30, 2016, but USAID now expects PTEC will be completed in December 2023.

PTEC's main objective is to connect Kabul's and Kandahar's respective power grids by building new transmission lines and substations. USAID expected that the new infrastructure would transmit excess power from Kabul southward to meet the needs of Kandahar and other population centers along the way. USAID also sought to commercialize Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national power utility, through activities like increasing the effectiveness of its corporate management practices, increasing revenue collection, reducing losses, and improving its operation and maintenance capabilities, with the goal of enabling DABS to sustain Afghanistan's new power infrastructure after PTEC's completion.

This audit assesses USAID's implementation and oversight of the PTEC project, from its inception in August 2011 through March 2019, and covers both completed and ongoing activities. The objectives of this audit were to determine the extent to which USAID (1) ensured that DABS achieved USAID's intended deliverables for PTEC—such as transmission lines and substations built, and hardware and software installed—and met those deliverables on schedule; (2) measured PTEC's progress in meeting USAID's intended project purpose and goals; (3) provided oversight and accountability for the Afghan government's commitments to USAID and implementation of PTEC activities; and (4) assessed whether PTEC infrastructure would be necessary and sustainable.

September 2019

USAID's Power Transmission Expansion and Connectivity Project: The Project is Behind Schedule, and Questions Remain about the Afghan Government's Ability to Use and Maintain New Power Infrastructure

SIGAR 19-57 AUDIT REPORT

WHAT SIGAR FOUND

SIGAR identified four main issues affecting PTEC's implementation, progress, oversight, and sustainability. These are:

1. PTEC projects were late, and its commercialization activities did not meet USAID's intended objectives.
2. USAID originally used 14 indicators to measure PTEC's progress toward achieving its project purpose and goals. However, USAID changed 4 indicators and dropped 8 without explanation; set baselines for only 10 of the original 14 indicators and targets for only 8; and did not validate the data it sourced from DABS for 4 of the 6 indicators it was still using as of 2018.
3. USAID continued to fund on-budget construction and commercialization activities despite concerns about DABS's internal controls, management of public finances, and vulnerabilities to corruption.
4. USAID's necessity and sustainability assessments were not completed or relied on flawed assumptions.

SIGAR's first major finding was that PTEC activities are behind schedule, and PTEC's commercialization activities that have ended did not achieve all of USAID's intended deliverables, as specified in its implementation letters with DABS. USAID used PTEC money to fund 18 activities, which USAID defines as project sub-components that contribute to a project's purpose. PTEC's activities fall into three broad components: infrastructure construction, DABS commercialization, and clean energy.

PTEC's completed infrastructure construction activities were between 7 months and 4.5 years behind their original schedules for three reasons. First, DABS's lack of procurement capability resulted in it taking 1 to 2 years to award contracts. In other instances, DABS did not award some contracts at all because of this lack of capability. Second, between April 2013 and September 2014, USAID obligated \$417.6 million to the Asian Development Bank (ADB) with the expectation that ADB would complete the remaining construction through on-budget contracts managed by DABS. When the bank failed to do so after 18 months, USAID de-obligated ADB's funding and reauthorized DABS to solicit and award contracts for these activities, which DABS did not award until September 2016 and February 2017. Third, various other unanticipated issues—including seasonal weather, security incidents, customs issues, and land acquisition and resettlement conflicts—resulted in additional delays.

PTEC's commercialization activities concluded between 2 and 9 months after the December 2016 completion date estimated in USAID's appraisal documents, with the exception of 1 contract that was ongoing at the time of SIGAR's review. In an independent assessment, a USAID third-party monitor found that the contractor primarily responsible for these activities "did not meet or only partially met several key" contractual requirements. For example, the contractor was not able to integrate new software into DABS's operations

because DABS did not procure the internet, communications, and bulk metering equipment needed to make this software fully functional. Although the contractor assisted DABS in improving some key areas, such as financial management and corporate governance, issues remained in other functions, such as asset management, procurement, and information technology.

Finally, PTEC's main clean energy activity, the \$10 million Kandahar Solar Power Plant, fell 18 months behind schedule due mainly to two issues: land use challenges and customs delays. DABS had to wait for nomadic farmers to harvest their crops and move off the construction site, re-route a public road that passed through the site, and change the configuration of the plot. Additionally, customs clearance delays held up construction materials at the Pakistani Port of Karachi for over 6 months while the Afghan Ministry of Finance prepared the necessary documents to clear the shipments.

SIGAR's second major finding was that USAID originally used 14 indicators to measure PTEC's progress toward achieving its project purpose and goals. However, USAID changed 4 and dropped 8 without explanation; set baselines for only 10 of the original 14 indicators and targets for only 8; and did not validate the data it sourced from DABS for 4 of the 6 indicators it was still using as of 2018. USAID officials told SIGAR that DABS changed or dropped these indicators because it had a lot of staff turnover and, therefore, faced challenges gathering data. DABS officials further explained that because DABS's monitoring and evaluation (M&E) department was low in DABS's organizational hierarchy and DABS's leadership did not support it, DABS M&E officials could not collect the information they needed to set baselines and targets, or measure progress against those baselines and targets. Without baselines, targets, and complete data, USAID lacked meaningful performance information to demonstrate how PTEC was progressing toward USAID's intended project purpose and goals. Additionally, the indicator data DABS reported was potentially misleading due to poor collection methods, not having the necessary equipment to collect accurate data, and deliberately reporting false data to give a better perception of PTEC's progress. USAID used a third-party quality assurance contractor to validate DABS's progress against PTEC's two construction indicators, but did not validate the data DABS reported for the four other indicators it was using as of 2018.

SIGAR's third major finding was that USAID continued to provide on-budget funding to DABS for construction and commercialization activities despite concerns about DABS's internal controls, management of public finances, and vulnerabilities to corruption. In addition, DABS and USAID did not provide consistent oversight of the commercialization contractors, creating openings for waste fraud and abuse. USAID conducted two risk assessments of DABS in 2011 and 2012 that identified 49 institutional weaknesses. USAID concluded that DABS was not yet capable of responsibly managing PTEC funding. To mitigate risks created by these 49 institutional weaknesses, USAID required DABS to submit and then implement plans to improve various organizational functions. DABS initially complied, developing all the required planning documents and addressing 32 of the weaknesses by 2013. However, by 2017, DABS had addressed only 8 of the 17 remaining weaknesses and developed 9 more. Moreover, DABS did not consistently implement the improvement plans it submitted to USAID.

USAID's ineffective oversight exposed U.S. funding to possible fraud, waste, and abuse. For example, in an attempt to mitigate risk, USAID developed multi-tiered monitoring plans for all PTEC contracts managed by DABS. These plans require at least three different sources of monitoring information. However, we found that USAID inappropriately used DABS for two of the three sources of information in some plans. Additionally, USAID did not develop multi-tiered plans for 3 of the 12 on-budget contracts managed by DABS, and documented an explanation for only one of these missing plans. Additionally, USAID was unable to regularly send U.S. government personnel to PTEC work sites and did not assign third-party monitors to all PTEC contracts, further limiting its sources of information. Investigators from USAID's Office of Inspector General also raised concerns about the way USAID's Mission for Afghanistan (USAID/Afghanistan) approached oversight, stating that USAID concentrated too much responsibility in its compartmentalized on-budget monitors who were often unable to identify issues affecting multiple contracts.

Moreover, USAID and DABS assigned tasks to PTEC contractors in violation of USAID guidance prohibiting various forms of conflict of interest. These potential conflicts of interest cast doubt on the impartiality of the data and assessments that USAID used to evaluate the project's performance, and raise questions about whether some PTEC contractors actually performed at the level reported by USAID. For example, USAID tasked a PTEC contractor with performing a follow-up assessment to measure DABS's progress in addressing the 49 weaknesses. However, this presented a conflict of interest because the contractor was also responsible for helping DABS to address these 49 weaknesses. In another case, DABS embedded contractor personnel in its finance department who then reviewed and approved their own company invoices for payment. According to USAID Office of Inspector General investigators, USAID/Afghanistan's on-budget monitors did not identify this financial conflict of interest, despite invoice reviews being one of their primary responsibilities.

USAID initially planned for 95 percent of PTEC's approved funding to be "on-budget," meaning that USAID would provide funding directly into Afghanistan's national budget and the Afghan government would use it only for USAID-approved activities. However, in May 2017, allegations of corruption emerged about DABS's then-chief executive officer, and in December 2017, Afghanistan's Independent Joint Anti-Corruption Monitoring and Evaluation Committee released an assessment finding 71 vulnerabilities to corruption at DABS. USAID found these allegations credible and, to its credit, immediately pulled over half of PTEC's approved

funding (\$399.5 million) to USAID-managed contracts. According to a senior USAID/Afghanistan official, USAID/Afghanistan initially disagreed with providing on-budget funding to DABS in the first place, expressing concerns about its ability to manage U.S. money. However, the then-USAID Administrator supported the use of on-budget assistance to DABS and overruled USAID/Afghanistan. As of the date of this report, USAID continues to obligate \$128.8 million toward three on-budget activities, even though it has become aware of allegations of high-level corruption at DABS and the utility's ongoing vulnerabilities to corruption, putting those funds at risk of misuse or fraud.

Finally, SIGAR's fourth major finding was that USAID did not assess the necessity and sustainability of 7 of 10 capital projects funded by PTEC that were each valued at more than \$5 million, despite being required to do so by Section 1273 of the National Defense Authorization Act for Fiscal Year 2013. Moreover, in the necessity and sustainability assessments that USAID did complete, USAID based its conclusions on several critical assumptions about the growth of Afghanistan's power supply and DABS's continued commercial viability, assumptions which have not matched reality in the years since. For instance, one of USAID's assessments assumed that Afghanistan would be able to generate or import enough power to meet Kabul's power demand, leaving excess power that could then be sent to Kandahar through PTEC transmission lines. However, as of March 2018, Kabul's demand continued to outstrip its supply, and Afghanistan does not yet have the infrastructure needed to import additional power. A third-party assessment raised concerns that even if DABS is able to generate or import enough power to send to Kandahar, its degraded power system might not be capable of transmitting this power to end users, leaving the excess power to go to waste.

In another case, one of USAID's assessments concluded that PTEC's commercialization activities would "help to assure that DABS has both the financial and human resources to maintain the project." However, these commercialization activities concluded in 2017 without meeting key objectives, and DABS continues to have weaknesses in its internal controls, management of public finances, and vulnerabilities to corruption. Similarly, although one of USAID's sustainability assessments stated, "DABS has become increasingly self-sufficient," it was still far from self-sufficient as of 2018. Following a sector-wide assessment in February 2018, USAID found that DABS reportedly had nearly \$135 million in debt, could not offset losses with revenues in 2017, and expected several more years of operating at a loss. Total transmission and distribution losses remained as high as 35 percent, according to senior Afghan government officials USAID interviewed for this assessment. USAID concluded that although 35 percent was an improvement from the estimated 50 percent loss sustained by DABS in 2009, the amount remained more than twice what is considered sustainable for a functioning utility company.

WHAT SIGAR RECOMMENDS

To improve USAID's performance measurement, implementation, and oversight of PTEC, SIGAR recommends that the USAID Administrator:

1. **Update or implement, as required by USAID/Afghanistan Mission Order 201.05, PTEC multi-tiered monitoring plans to include three separate sources of data for each ongoing activity, or document in the plan why using three tiers is not possible.**
2. **Condition the \$128.8 million in on-budget assistance still obligated to DABS on it addressing USAID's concerns about its internal controls, management of public finances, and vulnerabilities to corruption.**

To better inform Congress of the necessity and sustainability of PTEC's capital projects, SIGAR recommends that the USAID Administrator:

3. **Develop and submit to Congress, in compliance with the requirements of Section 1273 of the National Defense Authorization Act for Fiscal Year 2013, necessity and sustainability assessments covering the seven capital projects that USAID has yet to submit, and revise the assessments covering the three projects that did comply but whose analyses may now be out of date.**
4. **Determine whether to de-obligate funds for these capital projects based on the results of the new or revised assessments.**

SIGAR received written comments on a draft of this report from USAID/Afghanistan. In the draft of this report, SIGAR recommended that USAID update its monitoring and evaluation plan for PTEC to reflect the most current indicators. In its response to this recommendation, USAID stated that DABS had updated the M&E plan for PTEC. We reviewed the updated plan, dated July 2019, and found that it included the indicators currently in use and baseline data, annual targets, and end-of-project targets for each indicator. Therefore, we consider this recommendation implemented and removed it from this report. In addition, USAID concurred with the third recommendation, and did not concur with the first, second, and fourth recommendations. We disagree with USAID's explanations for not concurring with these recommendations and consider all three open. We reproduced USAID's comments in full in appendix XII; our responses to USAID's comments are found on pages 29 through 31 of this report.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 4, 2019

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

Mr. Peter Natiello
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of the U.S. Agency for International Development's (USAID) Power Transmission Expansion and Connectivity (PTEC) project from PTEC's inception in August 2011 through March 2019. Of the \$861.7 million in PTEC's available funding, USAID has obligated \$472.2 million as of May 2019. USAID disbursed \$292.9 million of the obligated funds as of January 31, 2019, leaving \$568.8 million in available funding. USAID has used PTEC money to fully fund 18 activities and partially fund 4 other activities across Baghlan, Balkh, Ghazni, Herat, Kabul, Kandahar, Nangahar, Parwan, Wardak, and Zabol provinces. Additionally, USAID transferred \$105 million to the Afghanistan Infrastructure Trust Fund, managed by the Asian Development Bank, to support the construction of other power infrastructure. USAID intends to channel another \$128.8 million through Da Afghanistan Breshna Sherkat (DABS), Afghanistan's power utility, and will spend the remaining \$439.9 million itself.

We are making four recommendations. We recommend that the USAID Administrator (1) update or implement, as required by USAID/Afghanistan Mission Order 201.05, PTEC multi-tiered monitoring plans to include three separate sources of data for each ongoing activity, or document in the plan why using three tiers is not possible; (2) condition the \$128.8 million in on-budget assistance still obligated to DABS on it addressing USAID's concerns about its internal controls, management of public finances, and vulnerabilities to corruption; (3) develop and submit to Congress, in compliance with the requirements of Section 1273 of the National Defense Authorization Act for Fiscal Year 2013, necessity and sustainability assessments covering the seven capital projects that USAID has yet to submit, and revise the assessments covering the three projects that did comply but whose analyses may now be out of date; and (4) determine whether to de-obligate funds for these capital projects based on the results of the new or revised assessments.

SIGAR received written comments on a draft of this report from USAID/Afghanistan. In the draft of this report, SIGAR's first recommendation was for USAID update its monitoring and evaluation plan for PTEC to reflect the most current indicators. In its response to this recommendation, USAID stated that DABS had updated the M&E plan for PTEC. We reviewed the updated plan, dated July 2019, and found that it included the indicators currently in use and baseline data, annual targets, and end-of-project targets for each indicator. Therefore, we consider this recommendation implemented and removed it from this report. In addition, USAID concurred with the third recommendation, and did not concur with the first, second, and fourth recommendations. We disagree with USAID's explanations for not concurring with these recommendations and consider all three open. We reproduced USAID's comments in full in appendix XII; our responses to USAID's comments are found on pages 29 through 31 of this report.

SIGAR conducted this work under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended, and in accordance with generally accepted government auditing standards.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS

ADB	Asian Development Bank
ADS	Automated Directives System
Checchi	Checchi & Company Consulting Inc.
DABS	Da Afghanistan Breshna Sherkat
M&E	monitoring and evaluation
Phoenix	Phoenix Information Technology Solutions Ltd.
PTEC	Power Transmission Expansion and Connectivity
SEPS	Southeast Electrical Power System
Tetra Tech	Tetra Tech, Inc.
USAID	U.S. Agency for International Development
USAID/Afghanistan	USAID Mission for Afghanistan

A lack of reliable access to affordable electricity is one of Afghanistan’s key economic challenges. A 2013 study funded by the Asian Development Bank (ADB) projected net electricity demand in Afghanistan would increase more than seven times by 2032, with an annual growth rate of 9.2 percent between 2017 and 2022.¹ The U.S. Agency for International Development (USAID) determined that Afghanistan needed to make major investments in its energy generation, transmission, and distribution capabilities to meet this growing demand. Yet inadequate power supply remains a problem for most Afghans. In a national survey conducted by The Asia Foundation in 2018, over half of the respondents said that they had access to electricity for less than 10 hours per day, while around 6 percent of respondents said they had no access to electricity.²

Afghanistan’s low power generation is a major contributing factor to its lack of electricity. According to USAID, even if greater power supplies became available, Afghanistan’s national power grid is not able to move that power out to regional load centers.³ Thus, the Afghan government made expanding and improving Afghanistan’s national power grid a top priority.

USAID initiated its \$861.7 million Power Transmission Expansion and Connectivity (PTEC) project in 2011 as one of several donor-funded efforts designed to meet this goal. As a part of the PTEC project, USAID seeks to commercialize Da Afghanistan Breshna Sherkat (DABS), Afghanistan’s national power utility, by improving corporate management practices, increasing revenue collection, reducing financial losses, and improving operation and maintenance capabilities. The end goal of PTEC’s commercialization activities is for DABS to be able to sustain Afghanistan’s new power infrastructure independently after PTEC’s completion.

Our audit assessed USAID’s implementation and oversight of the PTEC project, from its inception in August 2011 through March 2019. Our objectives were to determine the extent to which USAID:

- ensured that DABS achieved USAID’s intended deliverables for PTEC—such as transmission lines and substations built, and hardware and software installed—and met those deliverables on schedule;
- measured PTEC’s progress in meeting USAID’s intended project purpose and goals;
- provided oversight and accountability for the Afghan government’s commitments to USAID and implementation of PTEC activities; and
- assessed whether PTEC infrastructure would be necessary and sustainable.

To accomplish these objectives, we reviewed USAID’s Automated Directives System (ADS) and mission orders specific to Afghanistan for requirements and guidance related to foreign assistance projects. We obtained and analyzed PTEC performance data and reports provided by USAID, DABS, project contractors, and third-party monitors to determine project progress. We interviewed officials representing USAID, DABS, ADB, the Afghan Ministry of Finance, the Afghan National Procurement Authority, Tetra Tech Inc. (Tetra Tech), and Checchi & Company Consulting Inc. (Checchi).⁴ We conducted our work in Kabul, Afghanistan, and Washington, DC, from July 2018, through July 2019, in accordance with generally accepted government auditing standards. Appendix I has a more detailed discussion of our scope and methodology.

¹ Fichtner GmbH & Co KG, Islamic Republic of Afghanistan: Power Sector Master Plan (Financed by the Japan Fund for Poverty Reduction), “3: Demand Forecast,” April 2013, section 3, p. 16.

² The Asia Foundation, *A Survey of the Afghan People: Afghanistan in 2018*, December 4, 2018, pp. 90 and 92.

³ A power grid is a system of synchronized power providers and consumers connected by transmission and distribution lines, and operated by one or more control centers. A load is an end-use device or customer that receives power from the electric system.

⁴ Tetra Tech Inc. (Tetra Tech) is the third-party monitor that USAID tasked with providing quality assurance for PTEC’s construction activities. Checchi & Company Consulting Inc. (Checchi) is a firm USAID tasked with performing data quality assessments and a midterm evaluation of PTEC’s commercialization activities.

BACKGROUND

USAID initiated its Power Transmission Expansion and Connectivity (PTEC) project in August 2011. Of the \$861.7 million in available PTEC funding, USAID had obligated \$472.2 million as of May 2019. USAID disbursed \$292.9 million of this amount as of January 31, 2019, leaving \$568.8 million in available funding. USAID used PTEC money to fully fund 18 activities and partially fund 4 others across Baghlan, Balkh, Ghazni, Herat, Kabul, Kandahar, Nangahar, Parwan, Wardak, and Zabul provinces.⁵ See figure 1 for a map depicting the locations of these activities.

PTEC's 18 fully funded activities had the following three broad components:

1. Infrastructure construction activities, which included building a 220 kV transmission line between Kabul and Kandahar and seven 220 kV substations along that transmission line route, building a 220 kV substation and 20 kV distribution network in the Salang Tunnel, and making various improvements to the Southeast Electrical Power System (SEPS) servicing Kandahar and Helmand provinces.⁶ As of May 2019, USAID obligated \$259.3 million to these activities.⁷
2. DABS commercialization activities, which entailed providing new equipment and technical assistance to DABS so it can effectively manage, operate, and maintain the national power system. The three largest activities under this component were to (1) institutionalize proprietary software packages and integrate new bulk energy meters at regional load centers in Kabul, Kandahar, Herat, Mazar-i Sharif, and Jalalabad;⁸ (2) help DABS maintain the value of transmission and generation assets at these load centers; and (3) improve financial and corporate management practices at DABS. These activities were worth \$95.3 million.
3. Clean energy activities, which consisted of incentive funding for a 10 MW solar power public private partnership near Kandahar, advisory services, and two media campaigns. These activities were worth \$12.5 million.

PTEC also partially funded four activities through the Afghan Infrastructure Trust Fund, which ADB managed. ADB directed DABS to obligate this money toward the construction of a 500 kV line between Arghandi and Pul-e Khumri, the construction of a 500/220 kV substation at Arghandi, consultants to assist DABS in managing these construction activities, and the development of Afghanistan's Gas Development Master Plan. These projects were worth \$217.7 million; USAID contributed \$105 million of that amount.⁹

In addition to the \$861.7 million budgeted directly to PTEC activities, USAID awarded more than \$15 million in contracts that indirectly supported PTEC. These included funding for Tetra Tech engineers to provide quality assurance on PTEC construction activities, and funding for two separate teams of Checchi consultants, one to perform a mid-term evaluation of DABS commercialization activities and one to perform data quality assessments. The support contracts were not part of this audit's scope.

⁵ USAID defines an "activity" as a project sub-component that contributes to a project purpose. USAID, *Glossary of ADS Terms*, partially revised April 18, 2018, p. 8.

⁶ The last activity, also known as SEPS Completion, is not part of this audit's scope because we assessed this work as part of our audit of reconstruction projects related to Kajaki Dam. For more about SEPS Completion, see SIGAR, *Afghanistan's Energy Sector: USAID and DOD Did Not Consistently Collect and Report Performance Data Regarding Projects Related to Kajaki Dam, and Concerns Exist Regarding Sustainability*, SIGAR 19-37-AR, May 1, 2019.

⁷ As of April 2019, 2 of the 18 activities had contracts still under solicitation and did not yet have funds obligated to them. These were (1) the 220 kV substations at Kandahar, Qalat, Shahjoy, Moqor, and Qarabagh; and (2) SEPS Completion.

⁸ These software packages are (1) mPower, an integrated system designed to manage and monitor information about metering, billing, payments, new service connections, customer service calls, assets, inventories, and technician performance; and (2) Microsoft Great Plains, an enterprise resource planning system with accounting, financial, procurement, and human resource management functions.

⁹ The rest of the funding for these activities came from ADB, the United Kingdom's Department for International Development, and the government of Japan.

Figure 1 - Locations of Planned and Completed Activities Partially or Fully Funded by PTEC



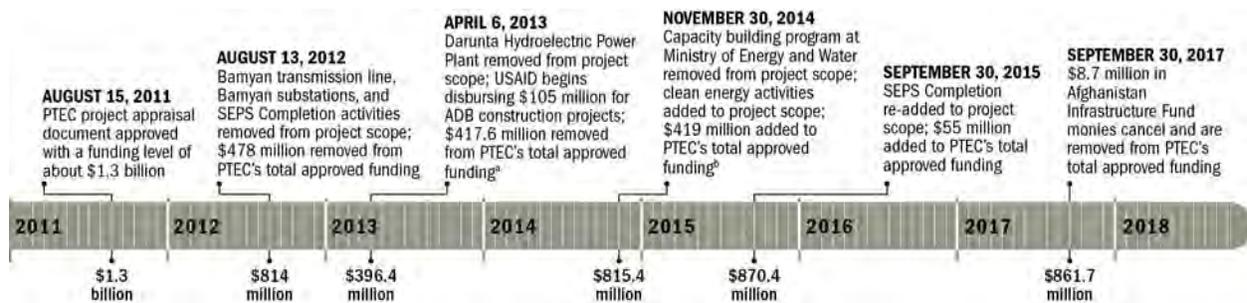
Source: SIGAR analysis of PTEC-funded activities.

USAID Changed PTEC’s Approved Funding Level, Project Scope, and Funding Sources Several Times Between 2011 and 2017

PTEC’s originally approved funding level was approximately \$1.3 billion when the project began in 2011. Of this amount, \$1.1 billion came from the Economic Support Fund, which USAID uses to finance economic stabilization programs in countries where the United States government has special strategic interests. The remaining \$177 million came from the Afghanistan Infrastructure Fund, which the U.S. Departments of Defense and State use to finance infrastructure projects in support of their counterinsurgency strategies.¹⁰ Over the years, PTEC’s approved funding level increased and decreased as USAID changed the project’s scope by adding and discontinuing various activities. Figure 2 summarizes the changes to PTEC’s approved funding level and scope from August 2011 to September 2017.

¹⁰ For more information on the Afghanistan Infrastructure Fund, see SIGAR, *Afghanistan Infrastructure Fund: Agencies Have Not Assessed Whether Six Projects That Began in Fiscal Year 2011, Worth about \$400 Million, Achieved Counterinsurgency Objectives and Can Be Sustained*, SIGAR 18-10-AR, October 31, 2017.

Figure 2 - Changes in PTEC's Approved Funding Level and Scope



Source: SIGAR analysis of PTEC project appraisal documents and implementation letters.

^a USAID removed amounts from their approved total funding to obligate to ADB.

^b USAID took back ADB's obligated funding and added it back to PTEC's total approved funding.

USAID Initially Designed PTEC to Be Primarily On-Budget, but Shifted Over Half of Its Funding Off-Budget in 2018

USAID designed PTEC so that DABS would execute nearly all activities “on-budget.” This means that USAID provided funding directly into Afghanistan’s national budget with the explicit agreement that partner Afghan government entities, known as implementing partners, would use the funding only for USAID-approved activities. In PTEC’s case, DABS was the implementing partner and USAID authorized it to solicit and award contracts through implementation letters. (Conversely, “off-budget” describes when USAID executes an activity through its normal contracting process.) According to the Department of State’s *Afghanistan and Pakistan Regional Stabilization Strategy*, the purpose of on-budget assistance is to build Afghan institutional capacity, increase professional skills and leadership within the Afghan government, and enable the Afghan people to assume increasing responsibility for their country’s economic development.¹¹

As of October 18, 2017, USAID expected that \$716.3 million (or 95 percent of the \$756.7 million remaining in PTEC’s approved funding after accounting for the \$105 million disbursed to ADB), would be executed on-budget. USAID intended to use the remaining \$40.4 million for off-budget clean energy activities. However, between December 2017 and February 2018, USAID decided to shift \$399.5 million from on-budget to off-budget, citing “alleged impropriety in [DABS’s] procurement process.”¹² This meant \$316.7 million remained for DABS on-budget contracts. USAID reported to us that as of January 31, 2019, it had already disbursed \$187.9 million of that amount to DABS, leaving \$128.8 million in funds still allotted for DABS on-budget contracts. Because DABS had already awarded contracts for the construction of the 220 kV transmission line between Ghazni and Kandahar, the construction of the 220 kV substation and 20 kV network at the Salang Tunnel, and the installation of bulk meters, USAID allowed DABS to continue work on these activities on-budget. In November 2018, USAID officials told us that aside from these specific activities, USAID intends to complete all remaining PTEC infrastructure and commercialization activities itself through off-budget contracts.

¹¹ U.S. Department of State, Office of the Special Representative for Afghanistan and Pakistan, *Afghanistan and Pakistan Regional Stabilization Strategy*, February 24, 2010, p.1.

¹² USAID, “Implementation Letter (IL) 22-70 USAID Revokes Consent on Ghazni-Kandahar Substations Project,” July 27, 2017.

USAID Is Required to Follow Legal, Agency, and Mission Order Requirements When Planning, Implementing, Monitoring, and Evaluating PTEC Activities

The USAID Mission for Afghanistan (USAID/Afghanistan) is required to follow Automated Directive Systems (ADS) 201, “Program Cycle Operational Policy,” for all projects and activities implemented both on- and off-budget.¹³ At a minimum, this requires USAID/Afghanistan to develop a project appraisal document with the project’s purpose, description, management and implementation plan, and monitoring and evaluation (M&E) plan. ADS 201 also requires USAID/Afghanistan to set indicators measuring progress toward the project’s purpose and goals, collect performance data, and assess these data regularly to ensure they reasonably meet standards of validity, integrity, precision, reliability, and timeliness.

Section 1273 of the National Defense Authorization Act for Fiscal Year 2013 requires USAID to perform an “assessment on the necessity and sustainability” of any capital project in Afghanistan to which more than \$5 million in USAID funding is obligated or disbursed.¹⁴ This assessment must include the project’s total estimated cost, the financial and other requirements necessary to sustain the project on an annual basis after completion, an assessment of whether the Afghan government has the capacity (in both financial and human resources) to maintain and use the project, a description of any arrangements for sustainment of the project following its completion if the host government lacks the capacity (in financial or human resources) to maintain the project, an assessment of whether Afghanistan has requested or expressed a need for the project, and an assessment by the U.S. Secretary of Defense, where applicable, of the effect of the project on the military mission of the United States in Afghanistan.

Additionally, ADS 220, “Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance,” is another source of guidance for USAID on-budget assistance.¹⁵ ADS 220 requires that before USAID/Afghanistan initiates on-budget assistance, it must perform a risk assessment to determine the extent to which a partner government entity can responsibly manage USAID funding. USAID/Afghanistan must address any risks through capacity building or imposing additional controls or other measures. If a third party performs the risk assessment on USAID’s behalf, that third party is not allowed to then assist the partner government organization in addressing those risks as this could raise concerns about conflict of interest. ADS 220 further states that if there is clear evidence of institutional vulnerabilities to corruption that the partner government organization fails to address with appropriate policies and actions, USAID missions should refrain from contributing on-budget assistance to that implementing partner.

In USAID/Afghanistan Mission Order 220.03, USAID/Afghanistan’s Mission Director issued additional guidance for on-budget assistance. The order requires each contract funded with on-budget assistance to have a USAID on-budget monitor responsible for M&E.¹⁶ USAID/Afghanistan Mission Order 203.04 requires implementing partners to regularly enter performance data into the Afghan Info data collection system.¹⁷ It also states that on-budget monitors must ensure that the data in Afghan Info are up to date, gather and analyze all monitoring data, and utilize the data to make informed decisions.

Furthermore, USAID/Afghanistan uses a multi-tiered monitoring approach for programming activities in Afghanistan because of its limited ability to oversee contractors in the field. Mission Order 203.04 required USAID/Afghanistan to use at least three of the following five “tiers” when monitoring contracts to ensure

¹³ USAID, Automated Directives System (ADS) 201, “Program Cycle Operational Policy,” partially revised October 29, 2018.

¹⁴ National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, § 1273 (codified as amended at 22 U.S.C. § 2421f).

¹⁵ USAID, ADS 220, “Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance,” partially revised November 27, 2018.

¹⁶ USAID Mission for Afghanistan (USAID/Afghanistan), Mission Order 220.03, “Implementation of Bilateral On-Budget Assistance Projects,” March 24, 2015.

¹⁷ USAID/Afghanistan, Mission Order 203.04, “Mission Order on Performance Monitoring,” March 29, 2016. Afghan Info is a web-based tool designed to track information about USAID/Afghanistan’s programs.

effective oversight: (1) direct U.S. government observation, (2) implementing partner reporting, (3) information from the Afghan government and international partner organizations, (4) information from civil society organizations and program beneficiaries, and (5) third-party monitor reporting. If including three tiers was not possible, Mission Order 203.04 required USAID/Afghanistan to document its reasons for using fewer than three tiers in a multi-tier monitoring plan.¹⁸

ALMOST ALL PTEC PROJECTS WERE BEHIND THEIR ORIGINAL SCHEDULES, DELAYING THEIR COMPLETION, AND DABS COMMERCIALIZATION ACTIVITIES ENDED WITHOUT ACHIEVING KEY OBJECTIVES

SIGAR assessed 15 of the 18 PTEC activities that USAID fully funded, worth \$364.7 million of the \$472.2 million obligated to date. We found that almost all 15 activities fell behind their original schedules, some by as many as 4.5 years. For two of the three remaining activities, worth \$2.4 million, USAID was unable to provide enough information for us to assess whether it met its deliverables or original schedules. The third remaining activity, SEPS Completion, was not included in our scope because SIGAR recently reviewed it in another audit.¹⁹ USAID obligated and disbursed another \$105 million to the ADB-managed Afghanistan Infrastructure Trust Fund, intending for ADB to complete PTEC's construction activities, but ADB spent the money on other priorities.

USAID intended for its infrastructure construction activities to produce 518 km of 220 kV transmission line between Kabul and Kandahar, seven 220 kV substations along this route, one 220 kV substation at the Salang Tunnel, and various transmission line and substation improvements in the SEPS network. DABS completed 110 km of transmission line connecting Kabul to Ghazni and two substations along that route. However, DABS finished these transmission lines and substations 8 months behind schedule. USAID stated that this new infrastructure replaced expensive, unsustainable, diesel-generated power, and reduced the cost of power from \$0.57 per kWh to \$0.05 per kWh. However, DABS reported that PTEC infrastructure is providing power to approximately 12,000 customers—a small subset of the 295,000 residents in Ghazni and Sayadabad, and well short of the 2.4 million Afghans who USAID originally planned to benefit from PTEC's new and updated infrastructure.²⁰ As of May 2019, DABS's remaining construction deliverables are between 7 months and 4.5 years behind schedule. These delays are the result of DABS's lack of procurement capability, ADB's decision not to use USAID contributions to the Afghanistan Infrastructure Trust Fund to implement USAID's priorities, seasonal weather, security incidents, customs issues, and land acquisition and resettlement conflicts with land occupants.

DABS commercialization activities have mostly concluded. However, DABS and its contractors did not achieve key deliverables because they did not procure the necessary equipment, integrate software into daily operations, or institutionalize reforms. Finally, PTEC's main clean energy activity, its \$10 million Kandahar Solar Power Plant, also fell behind schedule, mainly due to issues with land acquisition, resettlement, right of way, and customs.²¹

¹⁸ On September 20, 2017, the USAID Mission Director for Afghanistan issued updated guidance combining Tier 1 with Tier 5 and Tier 3 with Tier 4, and requiring multi-tiered monitoring plans to use all three tiers.

¹⁹ For more about the SEPS Completion activity, see SIGAR, *Afghanistan's Energy Sector*, SIGAR 19-37-AR.

²⁰ SIGAR, *USAID's Power Transmission Expansion and Connectivity Project: Arghandi-Ghazni Transmission Line Was Generally Built to Contract Requirements, but Four Deficiencies Create Safety Hazards and Could Disrupt Electrical Power*, SIGAR-19-35-IP, April 29, 2019, p. 5.

²¹ Before constructing transmission lines and substations, DABS is required to acquire privately held land as necessary, resettle residents living on that land, and remove right of way impediments such as trees and vegetation. We have previously reported on DABS's failure to resolve land acquisition, resettlement, and right of way impediments prior to initiating construction on other contracts. See SIGAR, *Afghanistan's North East Power System Phase III: USACE's Mismanagement Resulted in a System that is Not Permanently Connected to a Power Source, Has Not Been Fully Tested, and May Not Be Safe to Operate*, SIGAR-18-37-IP, March 30, 2018; and SIGAR, *Afghanistan's North East Power System Phase I: Construction Deficiencies, Contractor Noncompliance, and Poor Oversight Resulted in a System that May Not Operate Safely or At Planned Levels*, SIGAR-19-50-IP, August 12, 2019.

PTEC's Ongoing Construction Activities Are between 7 Months and 4.5 Years Behind Original Schedules, Delaying the Completion of Deliverables

For all seven infrastructure construction activities associated with PTEC, USAID originally authorized DABS to solicit and award contracts on-budget. USAID estimated DABS would complete them by December 30, 2016. These activities were intended to result in the construction or upgrade of transmission lines and substations around and between Kabul and Kandahar. However, DABS completed only two of the seven activities—8 months after their scheduled completion date—resulting in 110 km of transmission line connecting Kabul to Ghazni, and two substations along that route. DABS terminated one activity due to the contractor's nonperformance. The remaining four activities are between 7 months and 4.5 years behind schedule.

Although USAID's project appraisal document estimated that DABS would complete PTEC's infrastructure construction activities by December 30, 2016, all activities encountered significant delays. As of February 2019, USAID projected finishing the Salang Tunnel substation by mid-2020, the Ghazni to Kandahar transmission line by late 2020, and the five remaining substations and SEPS completion by late 2021. Not only were construction activities delayed beyond USAID's planned timeframes, but they were also delayed when compared with DABS's own planned timeframes. Appendix II summarizes all infrastructure construction activities and their associated contracts, and appendix III compares the delays in construction activities against the original scheduled completion dates in USAID's planning documents and in DABS's contract documents.

Because several infrastructure construction activities are more than 5 years old, some of the funding attached to them has expired and been cancelled, putting ongoing PTEC projects at risk.²² For instance, \$8.7 million from the Afghanistan Infrastructure Fund was cancelled in September 2017 because the funding expired in September 2012.²³ During our fieldwork, USAID officials told us that because another \$179.5 million from the Afghanistan Infrastructure Fund will be cancelled by the end of fiscal year 2019, they were concerned that USAID would not be able to fund the construction of three of the five remaining substations planned for the Ghazni to Kandahar transmission line.²⁴ However, in its response to a draft of this report, USAID stated that it now has sufficient money from its Economic Support Fund to replace the cancelling of money from the Afghanistan Infrastructure Fund and fund all five substations.

The Afghan Government's Lack of Procurement Experience and Ability Resulted in Delays

USAID issued implementation letters to DABS granting approval for DABS to solicit requests for proposals for construction activities. However, after receiving USAID's approvals, DABS (and later, Afghanistan's National Procurement Authority and National Procurement Commission) took between 1 and 2 years to authorize the issuance of construction contracts.²⁵ Table 1 shows the amount of time that elapsed between USAID's authorization of a construction activity and DABS's award of a contract for that activity.

²² According to the Government Accountability Office, an expired appropriation is one that "is no longer available to incur new obligations, although it may still be available for the recording and/or payment (liquidation) of obligations properly incurred before the period of availability expired." A canceled appropriation is one "whose account is closed, and is no longer available for obligation or expenditure for any purpose." Government Accountability Office, *Principals of Federal Appropriations Law Chapter 2: The Legal Framework*, Fourth Edition 2016 Revision, p. 2-10. As GAO further explains, an "expired appropriation remains available for 5 years for the purpose of paying obligations incurred prior to the account's expiration and adjusting obligations that were previously unrecorded or under recorded. 31 U.S.C. § 1552(a). After 5 years, the expired account is closed and the balances remaining are canceled [and thereafter are not available for obligation or expenditure for any purpose]. 31 U.S.C. § 1552(a)." Government Accountability Office, *Principals of Federal Appropriations Law, Chapter 2: The Legal Framework*, Fourth Edition 2016 Revision, pp. 2-29–2-30.

²³ USAID, "Implementation Letter (IL) Number 22-55: Reduction of the unliquidated/unspent balance of \$8,739,836.38 from the Implementation Letter 22-43," October 18, 2017.

²⁴ These are the substations in Shahjoy, Moqor, and Qarabagh.

²⁵ The Afghan government established the National Procurement Authority and National Procurement Commission in October 2014. The authority's mission includes reforming the public procurement system, developing procurement policies, providing professional development for procurement officers, integrating procurement plans, monitoring procurement processes, and providing oversight of Afghan government contracts. The commission consists of Afghanistan's President, Chief Executive,

Table 1 - DABS Took Between 1 and 2 Years to Issue PTEC Contracts

Activity	Date USAID Authorized DABS to Solicit Contract	Date DABS Issued Contract	Time Elapsed to Award Contract
220 kV transmission line between Arghandi and Ghazni	March 31, 2013	March 26, 2014	360 days
220 kV substations at Sayadabad and Ghazni	March 31, 2013	March 26, 2014	360 days
220 kV substation and 20 kV network at Salang Tunnel	December 16, 2014	September 28, 2016	1 year, 287 days
220 kV transmission line between Ghazni and Kandahar	January 29, 2015	February 26, 2017	2 years, 29 days
220 kV substations at Kandahar, Qalat, Shahjoy, Moqor, and Qarabagh	January 29, 2015	N/A ^a	N/A ^a

Source: PTEC implementation letters and contracts, Tetra Tech reports, and SIGAR interviews with USAID officials

^a USAID revoked its consent for this contract on July 27, 2017, citing alleged improprieties in DABS’s procurement process. DABS was unable to award the contract before this date, reflecting a nearly 2.5-year delay. USAID officials told us USAID intends to complete the substations itself using off-budget contracts and expects to finish them in July 2021.

According to officials from USAID, DABS, Tetra Tech, and the Afghan National Procurement Authority, DABS’s bid approval system was one of the biggest sources of procurement-related delays. They said DABS convened a separate, ad hoc bid approval board for each contract, often appointing members based on their availability rather than their backgrounds or technical expertise. The officials we interviewed observed that DABS’s system resulted in lengthy and unproductive question and answer sessions about each contract and amendment.

USAID officials said that DABS’s lack of management capacity also caused procurement delays. According to these officials, in 2015, Afghanistan’s President fired DABS’s chief executive officer after allegations of corruption emerged. They said the President then replaced him with an individual who had experience in banking and selling solar power systems, but not in running a large organization or utility company. According to USAID, this new chief executive fired DABS’s senior management team in October 2015 at the urging of Afghanistan’s President; however, DABS was slow to hire and train replacements in subsequent years.

USAID and Tetra Tech officials told us that the National Procurement Authority was another major source of procurement delays. These officials said that after the Afghan government established the authority in October 2014, DABS had trouble navigating the new procurement process. The USAID officials said that when DABS made even minor mistakes when submitting a procurement package—for instance, forgetting to place its official stamp on every page of every document—the authority would force DABS to resubmit the package. The National Procurement Authority frequently held up DABS contracts, which the USAID and Tetra Tech officials we spoke with attributed partially to the authority being too stringent and opaque in its requirements, and partially to procurement officials at both DABS and the authority being too unskilled and inexperienced. Authority officials told us they believe they have a smooth and timely bid evaluation process, and that most delays result from DABS making changes to contracts or taking a long time to complete the bid evaluation stage.

Procurement problems continued to delay activities after they were underway. For instance, delays in DABS’s approval process left contractors waiting for DABS to issue notices to proceed, resulting in construction starting

Second Vice President, Minister of Finance, Minister of Economy, Minister of Justice, and Senior Advisor to the President on Infrastructure. One of the commission’s roles is to assess and approve all procurement contracts and amendments above certain thresholds. The National Procurement Authority acts as the National Procurement Commission’s secretariat.

late. For example, Tetra Tech reported that the contractor for the 220 kV transmission line between Arghandi and Ghazni was unable to complete war damage repairs because DABS took 4 months to approve a 7-month contract extension. This did not leave enough time for the contractor to procure spare parts for the repairs before the contract concluded. Tetra Tech reported that in another example, the contractor for the 220 kV transmission line between Ghazni and Kandahar risked beginning the contract without pay in May 2017 after waiting 2 months for a conditional notice to proceed. DABS did not provide the full notice to proceed until August 1, 2017, 5 months after it signed the contract, pushing the initial completion date back to January 1, 2020. According to DABS and Tetra Tech officials, another source of delay was that Afghan law requires the National Procurement Commission to approve contract amendments involving a threshold percent change in costs or duration. Any PTEC contract amendments greater than the threshold had to go to the commission, which typically took between 2 and 3 weeks to review and approve them, according to Tetra Tech.²⁶

The Asian Development Bank Spent \$105 Million of PTEC Funding on Other Priorities, Delaying PTEC Construction Activities by 2 Years

PTEC's original project appraisal document specified that PTEC would be implemented using both on-budget and off-budget assistance. However, on April 6, 2013, USAID eliminated several planned PTEC activities and shifted \$417.6 million in PTEC funding to the Afghanistan Infrastructure Trust Fund, which ADB manages. Although these activities were still on-budget, ADB was to oversee the activities and DABS was to implement them.

USAID intended for ADB to use some of the \$417.6 million to construct PTEC's 220 kV transmission line between Ghazni and Kandahar, and 220 kV substations at Kandahar, Qalat, Shahjoy, Moqor, and Qarabagh. However, ADB did not focus on USAID's priorities. Instead, ADB obligated \$104.2 million to support its building of a 500 kV line between Pul-e Khumri and Arghandi and a 500/220 kV substation at Arghandi, and obligated another \$800,000 to develop a Gas Development Master Plan. When we asked why ADB did not obligate PTEC funding toward USAID's priorities, both ADB and USAID officials told us that ADB wanted to complete its own transmission line and substation before initiating construction of additional lines south of Kabul. ADB officials stated that without the ability to import additional electricity into Kabul, transmission infrastructure farther south would not be useful. USAID officials disagreed, saying that ADB could have executed the infrastructure construction activities simultaneously. Although the agreement between USAID and ADB allowed ADB to allot Afghanistan Infrastructure Trust Fund money to whatever activities it chose, USAID expected to influence ADB's decisions as a member of the fund's steering committee.²⁷

Eventually, in September 2014, USAID decided to withhold the \$312.6 million in remaining funding that ADB had not yet disbursed, and redirected that funding toward additional on-budget contracts through DABS. USAID officials told us they made this decision after it became apparent that the Afghanistan Infrastructure Trust Fund was not functioning as USAID expected it to. For example, USAID told us that after 2 years, ADB had still not established a donor executive committee or an M&E capability for the trust fund, as required. USAID officials also expressed concern about ADB's in-country leadership team at the time. These problems, compounded by ADB's use of PTEC funds for other priorities, caused USAID to lose confidence in ADB and the Afghanistan Infrastructure Trust Fund. USAID estimated that it could have used on-budget contracts to complete the construction of its 220 kV transmission line and five 220 kV substations between Ghazni and Kandahar as much as 1 year earlier than ADB would have completed them. Additionally, USAID may have been able to complete these activities even earlier had it not transferred the funding to the Afghanistan Infrastructure Trust Fund in the first place.

²⁶ According to Article 63 of Afghanistan's Procurement Law, the threshold amounts are specific to the entity, which in the case of the contracts applicable to this audit is DABS. The National Procurement Authority recommends threshold amounts or revisions, and the National Procurement Committee then reviews and approves them. When we asked Tetra Tech officials what the thresholds were during this period, they responded that the rules around thresholds were unclear, creating confusion about which amendments DABS needed to submit to the authority and commission for their review.

²⁷ At that time, ADB did not allow donors to restrict their donations to specific activities. It began allowing donors to do this in November 2016.

ADB authorized DABS to award a contract for the 500 kV transmission line between Pul-e Khumri and Arghandi on December 14, 2013, and expected that DABS would complete the contract by December 31, 2016. However, DABS did not award the contract until nearly 2 years after ADB authorized it to do so, on November 27, 2015. ADB and USAID officials said in September and November 2018, respectively, that they expect the transmission line's completion no earlier than 2021. Similarly, ADB authorized DABS to award a contract for the 500/220 kV substation at Arghandi on December 14, 2013, and expected that DABS would complete this contract by December 31, 2016. However, DABS took 4 years to award the contract, in December 2017. As of September 2018, ADB expected work on the substation to be completed by June 2019, 2.5 years after the originally projected completion date.

Seasonal Weather Conditions, Security Incidents, Land Acquisition and Resettlement Conflicts, and Customs Issues Caused Additional Delays

PTEC activities experienced various unanticipated problems that delayed construction. As a result, USAID and DABS issued multiple contract extensions and adjustments, and contractors tried to make up for lost time. In some cases, these problems affected DABS's ability to pay contractors and created uncertainty as to whether DABS and USAID would approve contract changes.

USAID, DABS, Tetra Tech, and ADB all stated that seasonal weather conditions prevented construction during several months of the year, which especially affected construction activities in the mountainous Salang Pass. These officials said severe weather, including snow and extreme cold, limited construction to April through October. This, combined with delays in DABS's approvals process, resulted in 202 days of delays for the Salang Pass activity.

Afghanistan's security situation also caused delays. USAID officials explained that although insurgents do not typically attack power infrastructure, collateral damage often occurs when government and insurgent forces engage in combat. Security was of particular concern in Ghazni province, where DABS was building a segment of the 220 kV transmission line and a 220 kV substation. According to data from the Uppsala Conflict Data Program and the Armed Conflict Location and Event Data Project, there was a moderate increase in conflict-related fatalities between 2014 and 2017, and a sharp increase between 2017 and 2018, corresponding to an insurgent attack on Ghazni that occurred between August 10, 2018, and August 15, 2018.²⁸ These data indicate that security incidents were a persistent and increasing problem. USAID officials told us that each security incident delayed construction by between 1 and 3 days.

SIGAR has previously reported on DABS's failure to resolve land acquisition, resettlement, and right of way issues before beginning construction of transmission lines, and resulting in work slowdowns and potential threats to human life.²⁹ USAID, DABS, Tetra Tech, and ADB officials told us that land acquisition, resettlement, and right of way issues remained a major challenge in completing construction activities in Afghanistan. According to Tetra Tech officials, although DABS was contractually required to secure land rights prior to construction, DABS often proceeded with construction before it had resolved land issues. ADB officials said land acquisition and resettlement tended to become more difficult in populous urban environments such as Kabul. ADB officials further told us that, in their words, a few opportunistic "land grabbers" near Kabul caused considerable construction delays to the 500 kV transmission line by making questionable claims to land ownership and forcing DABS to pay them to move.

Finally, customs issues also caused delays. According to USAID officials, equipment for U.S.-funded activities in Afghanistan are customs duty-free, but both Afghanistan and Pakistan did not consistently follow the agreed-to exemption process. As a result, Pakistan's port authority regularly held up materials for PTEC construction

²⁸ The Uppsala Conflict Data Program and Armed Conflict Location and Event Data Project are two open-access databases that track security incidents and political violence in conflict zones around the world. "Number of Deaths: Afghanistan," Uppsala Conflict Data Program, accessed May 16, 2019, <http://ucdp.uu.se/#country/700>. "South Asia 2016–Present dataset, 1/1/2019–4/13/2019," ACLED, accessed May 16, 2019, <https://www.acledata.com/tag/afghanistan/>.

²⁹ SIGAR, Afghanistan's North East Power System Phase III, SIGAR 18-37-IP, March 30, 2018; and SIGAR, Afghanistan's North East Power System Phase I, August 12, 2019.

activities at the Port of Karachi. The officials told us that delayed shipments of construction materials affected several PTEC activities, including the Salang Tunnel, Ghazni to Kandahar East 220 kV transmission line, and Arghandi to Ghazni 220 kV transmission line. According to USAID officials, USAID and DABS ultimately intervened to resolve the customs issues, and worked with Afghanistan's President to address the issue with Pakistan, though this process took several months and led to construction delays.

PTEC's DABS Commercialization Activities Ended Behind Original Schedules and Without DABS Achieving Key Deliverables

Five of the seven DABS commercialization activities, all executed through on-budget contracts, concluded between 2 and 9 months after December 30, 2016, the completion date estimated in USAID's project appraisal document. DABS terminated one activity. The remaining activity was ongoing as of the date of this report and at least 8 months behind schedule.³⁰ An independent assessment issued by Checchi on October 26, 2017, found that while the contractor primarily responsible for these activities "met many of its contractual obligations...it did not meet or only partially met several key ones."³¹

DABS issued the commercialization component's three largest contracts to the same contractor, Phoenix Information Technology Solutions Ltd. (Phoenix).³² USAID and DABS intended for Phoenix to provide new equipment and technical assistance to DABS to effectively manage, operate, and maintain the national power system. Phoenix's responsibilities included:

- institutionalization of proprietary software packages mPower and Microsoft Great Plains, to include integrating data from new bulk energy meters in Kabul, Kandahar, Herat, Mazar-i Sharif, and Jalalabad;
- capacity building to help DABS maintain the value of transmission and generation assets at these five regional load centers; and
- technical assistance to improve financial and corporate management practices at DABS.

According to Checchi's midterm evaluation of the PTEC commercialization component, DABS was limited in its ability to use the new mPower and Microsoft Great Plains software.³³ Checchi found that although Phoenix purchased all mPower and Microsoft Great Plains modules as required, it did not fully implement or integrate them in the five regional load centers because DABS did not procure the internet and communications equipment needed to do so. As a result, the regional load centers reported data to headquarters in Excel spreadsheets, and headquarters staff then manually entered these data into the two systems. Checchi further reported that the Microsoft Great Plains software had no Dari or Pashto language options, making it difficult for Afghan employees to operate. According to Checchi, DABS's Departments of Finance and Accounting, Procurement, Information Technology, and Human Resources all reported that they lacked the capacity to operate and troubleshoot the new software without Phoenix.

USAID officials told us they did observe some successes with the new software. For example, DABS was using the Microsoft Great Plains Human Resources Module, and as a result, the time required to complete the payroll process decreased from 2 weeks to 1 day. Nevertheless, the officials agreed that DABS was not using the new software to the extent it should be, and they told us this was in part because DABS's senior management no longer had any "champions" for mPower or Microsoft Great Plains.

Phoenix also did not achieve key capacity building and technical assistance deliverables. Checchi's midterm evaluation of the PTEC commercialization component found that DABS's systems improved in some key areas,

³⁰ Appendix IV summarizes the DABS commercialization activities and their associated contracts.

³¹ Checchi, *Mid-Term Performance Evaluation: Power Transmission Expansion and Connectivity (PTEC) Commercialization Activities*, October 26, 2017, p. ii.

³² Phoenix Information Technology Solutions Ltd. later changed its name to Fluentgrid Limited.

³³ Microsoft Great Plains is an enterprise resource planning system with financial, procurement, and human resource management functions. mPower is a software package designed to manage and monitor information about metering, billing, payments, new service connections, customer service, assets, inventories, and technical performance.

including financial management and corporate governance. However, gaps remained in DABS's adherence to key performance indicators in areas such as M&E, asset management, procurement, and information technology. In one case, USAID denied a \$3.1 million payment to Phoenix because Phoenix never implemented an electricity business model pursuant to the terms of one of its contracts. Furthermore, both the Checchi mid-term evaluation team and DABS officials indicated that Phoenix's training program was not well-targeted or well-delivered. Checchi observed problems including "the use of an academic approach to training instead of a practical approach; training material not relevant to the needs of participant's professional requirements; and, duration of training which was often too short to allow participants to absorb new concepts."³⁴ DABS officials also said Phoenix did not invite relevant staff to its trainings. For example, they said only senior-level DABS officials attended some training events, rather than the low- or mid-level DABS employees who needed the instruction to perform their job duties.

The only ongoing \$7 million DABS commercialization contract at the time of our audit was for the procurement and installation of bulk energy meters. However, according to DABS and USAID officials, the contractor, Shenzhen Star Instrument Co. Ltd., was underperforming, and the contract was 8 months behind schedule. USAID officials said that although the production and delivery of the bulk meters was progressing, Shenzhen's site staff had not installed the meters. As a result, DABS and USAID approved amendments to the contract extending the period of performance, cancelling the installation component due to non-performance, and using the extra money to buy additional meters. USAID officials told us that DABS now plans to install the meters itself. They said USAID will not reimburse DABS directly for its labor and will stagger payments for the meters so that DABS must finish installing one batch of meters before it orders the next batch from Shenzhen.

USAID gave its consent for DABS to award the bulk meter contract in August 2016; however, DABS did not award the contract to Shenzhen until May 31, 2017. Although integrating mPower software with these meters was one of Phoenix's key requirements, the meters did not begin to arrive until after Phoenix's mPower contract had ended.³⁵ Both USAID and Checchi representatives told us that without this equipment, mPower cannot function as intended, and DABS cannot accurately measure its transmission and distribution losses or determine which losses are technical and which are commercial.³⁶ When we asked why DABS did not purchase the bulk meters in a timely fashion, a DABS official said that the DABS's procurement department lost track of the solicitation. He further stated that although DABS did a poor job tracking its own procurements, USAID also did not provide adequate oversight or follow up with DABS about these delays. USAID officials told us it was not their role to monitor the progress of DABS's ongoing contract solicitations, and that USAID was prompt in responding to DABS requests to solicit and award contracts. USAID also provided a timeline of DABS's and USAID's actions over the course of the 19-month procurement period to demonstrate that the process moved consistently, albeit slowly. USAID explained that resolving concerns from the National Procurement Authority accounted for 9.5 of the 19 months needed to award the contract.

Checchi found that overall, the DABS commercialization component achieved mixed results; Afghan government officials described it to us as a wasted opportunity. Checchi concluded that improvements realized from PTEC commercialization activities would "only be sustained if DABS reduces its reliance on Phoenix consultants and creates opportunity for its staff to build its capacity and play an integral role in management and operations."³⁷ However, officials from the Afghan government, Checchi, and USAID told us that DABS relied too heavily on Phoenix consultants who were embedded across DABS's departments. The officials said that Phoenix

³⁴ Checchi, Mid-Term Performance Evaluation, p. iv.

³⁵ The Phoenix contract included a licensing and rollout of mPower software to the five regional load centers in Kabul, Kandahar, Herat, Mazar-i Sharif, and Jalalabad; a provision of annual maintenance support in operation of the software; and mPower's integration with other DABS software and systems, including Microsoft Great Plains and the new bulk metering system.

³⁶ Technical losses occur naturally and consist mainly of power dissipation in electricity system components such as transmission and distribution lines, transformers, and measurement systems. The system must be well designed, constructed, and maintained to minimize technical losses. Commercial (also known as non-technical) losses are caused by actions external to the power system and consist primarily of electricity theft, meter tampering, collusion with utility staff, and errors in accounting and recordkeeping.

³⁷ Checchi, Mid-Term Performance Evaluation, p. 23.

consultants too frequently performed tasks directly, often at the direction of DABS's senior management, rather than training DABS employees how to do them. As a result, local staff did not develop the skills and experience they needed to assume full responsibility for DABS's operations once Phoenix's contracts ended. USAID acknowledged that the transition away from Phoenix support should have been more gradual and that more work needs to be done to build capacity at DABS. DABS officials expressed to us a desire for continued support and additional resources to build capacity.

PTEC's Main Clean Energy Activity Was Delayed Because of Resettlement, Right of Way, and Customs Issues

PTEC's clean energy component consisted of four off-budget activities worth \$12.5 million in total. These activities consisted of incentive funding for a 10 MW solar power public private partnership near Kandahar, advisory services, and two media campaigns.

At the time our audit concluded, one of these activities, to build a 10 MW solar power plant in Kandahar, remained ongoing and behind schedule. For another activity, a \$63,524 energy media campaign, USAID's contractor reported that it met its contract deliverables on schedule. USAID did not provide us with supporting documentation for the two other clean energy activities, despite our requests. USAID told us these activities were in support of a private sector entity, the U.S. Energy Association, and indicated that USAID did not maintain contract or performance documentation for them. As a result, we did not assess the deliverables and schedule performance for these two activities.³⁸

According to USAID officials, three resettlement and right of way issues delayed issuing the notice to proceed for the Kandahar Solar Power Plant by 6 months. First, nomadic farmers had settled on the designated site and planted crops before construction began. The nomads agreed to move off the land after they harvested their crops. Second, DABS had to re-route a public road that passed through the construction site. Third, DABS changed the configuration of the plot, which delayed construction of the boundary wall. As a result, USAID did not issue its notice to proceed until August 2017. Because the contract specified a 12-month construction window, this ultimately delayed the anticipated end date for construction until August 2018.

Once construction was underway, customs clearance delays resulted in construction materials being held up at Pakistan's Port of Karachi for over 6 months while the Afghan Ministry of Finance prepared the necessary documents to clear the shipments. In August 2018, with construction materials still in transit to the construction site, USAID extended the contract's end date to August 2019. Combined with the earlier 6-month delay in issuing the notice to proceed, this additional 12-month delay resulted in a total delay of 18 months from USAID's originally planned schedule. Afghan media reported that residents and businesses in Kandahar are becoming increasingly unhappy with the lack of electricity, stating that the shortage of power has had a negative impact on their lives and on the economy.

USAID COULD NOT MEASURE PROGRESS TOWARD ITS INTENDED PROJECT PURPOSE AND GOALS FOR PTEC BECAUSE IT DID NOT FOLLOW AGENCY GUIDANCE AND DID NOT CONSISTENTLY VERIFY DATA FROM DABS

USAID's intended project purpose and goals for PTEC were to provide more than 2.4 million Afghans with access to electricity by expanding and improving Kabul's and Kandahar's power grids, strengthening DABS's ability to operate and maintain its assets, and attracting private-sector investment in clean energy generation. However, USAID had limited ability to measure progress toward these goals for two reasons. First, DABS and USAID changed and dropped project indicators without explanation, did not consistently establish baselines and

³⁸ Appendix V summarizes the four clean energy activities and their associated contracts.

targets for their selected indicators, and did not collect complete data sets. Second, DABS provided USAID with potentially inaccurate indicator data for PTEC indicators, and USAID did little to verify the data.

USAID Could Not Monitor and Evaluate PTEC Performance Pursuant to Guidance Because DABS Stopped Tracking 8 of 14 Indicators, and PTEC’s Indicators Lacked Baselines, Targets, and Complete Data Sets

PTEC’s M&E plan, which DABS developed and USAID approved in July 2015, contained 14 performance indicators. However, DABS dropped 8 indicators without explanation, and its indicators lacked baselines and targets, as USAID agency guidance requires. Furthermore, USAID and DABS were missing several years’ performance data for each of the selected indicators, in part because DABS did not consistently upload data to the Afghan Info data collection system, and USAID did not hold DABS accountable for not doing so.

ADS guidance requires USAID/Afghanistan to develop a project-level M&E plan with at least one indicator to monitor progress toward achieving the project’s purpose and goals.³⁹ It also requires USAID/Afghanistan to establish baseline data, annual targets, and end-of-project targets for all selected indicators.⁴⁰ The ADS further states that while USAID missions have the authority to change, drop, or add indicators, they are responsible for updating the M&E plan to describe their reasons for doing so.

USAID approved DABS’s original M&E plan in July 2015. The M&E plan contained 14 indicators, 2 of which measured progress toward PTEC’s intended outputs, such as DABS’s collected revenue as a percentage of its total costs, and 12 of which measured progress toward intended outcomes, such as the number of beneficiaries with improved energy services.⁴¹ In July 2016, USAID approved DABS’s revised M&E plan, wherein DABS reduced the total number of indicators from 14 to 10 and reclassified 4 outcome indicators as output indicators without explanation.

Officials from both organizations told us that by 2018, they were tracking three output and three outcome indicators:

Output 1	The percent of power line transmission lines completed or upgraded as a result of U.S. government assistance
Output 2	The percent of substations completed or upgraded as a result of U.S. government assistance
Output 3	The annual MW hours produced or purchased for the national electric grid ⁴²
<hr/>	
Outcome 1	The number of MW hours supplied to customers
Outcome 2	The percent reduction in DABS’s revenue losses
Outcome 3	The number of beneficiaries with improved energy services due to U.S. government assistance

The additional decrease from 10 to 6 indicators shows that DABS dropped 4 more indicators.⁴³

³⁹ ADS 201.3.3.13, partially revised October 29, 2018, pp. 72-73.

⁴⁰ ADS 201.3.3.13 requires USAID to establish a baseline and end-of-project target for each indicator in a project’s M&E plan. Indicator baseline values must be determined before a project starts. Baseline data establish the value of performance indicators when a project begins and allow USAID to track the changes that occur during the project and whether it is achieving its desired results. ADS 201 supplemental guidance further requires that any indicators included in USAID’s annual Performance Plan and Report must have annual targets and that these must be set for the current fiscal year and the following 2 fiscal years. See ADS 201.3.3.13, partially revised October 29, 2018, p. 73; and USAID, “Monitoring Toolkit: Performance Indicator Targets,” November 2017, p. 2.

⁴¹ According to USAID, “outputs” are the tangible, immediate, and intended products or deliverables of an activity, and “outcomes” are the benefits or consequences resulting from those products or deliverables.

⁴² MW hours are a measure of power supplied over time.

⁴³ Appendix VI summarizes information about the indicators USAID and DABS used from July 2015 to April 2019.

The M&E plans do not discuss why USAID and DABS reduced the number of indicators from 14 to 10 to 6 and changed some from outcomes to outputs. USAID officials told us that the main reasons USAID and DABS dropped indicators was because DABS's M&E department had a lot of staff turnover and therefore faced challenges gathering data. When we asked when DABS would revise the M&E plan again to reflect the 6 current indicators, USAID officials told us that DABS was in the process of revising it, but they could not give us a draft version of the revised plan, despite our request. USAID said they expected DABS to complete the revised plan by the end of the second quarter of 2019.

In addition to the decreasing number of indicators, we found that DABS did not consistently set indicator baselines, end-of-project targets, and annual targets as required by the ADS. When we examined the original 2015 M&E plan, we determined that DABS set baselines for 4 of the 14 indicators. To its credit, DABS provided baseline data for all 10 indicators in its updated 2016 M&E plan. However, neither the 2015 nor the 2016 plans had end-of-project targets for any of the 14 indicators. The 2015 M&E plan also did not have annual targets for any of its 14 indicators, but the 2016 M&E plan provided annual targets for 4 indicators. When we asked if USAID could fill in any of the missing targets, it provided us a dataset for the 10 indicators in the 2016 M&E plan. This dataset included annual targets for 8 of the 10 indicators, but still had no end-of-project targets for any indicators.

DABS officials gave four reasons for the gaps in indicator baselines and targets. First, although ADS 220 guidance advises USAID/Afghanistan to work with host governments to identify performance indicators and evaluation questions, the DABS M&E department said USAID's assistance was minimal.⁴⁴ USAID officials disagreed, saying that they held meetings and conference calls throughout the process of developing the M&E plan, and provided a 1-day training in 2015 and a 2-day training in 2017. Second, DABS officials said with only two M&E officials on its staff, DABS does not have enough personnel to perform M&E effectively. Third, these DABS officials said that other departments provided limited support and information to the M&E department. According to DABS officials, other departments commonly told the M&E department, "We have a target for 1 year, but if you're asking for 3 years, we don't have that." Fourth, the DABS officials told us that the M&E department was low in DABS's organizational hierarchy and that DABS's leadership did not support its work. As a result, DABS's M&E officers lacked the authority to compel other DABS departments to provide indicator targets and data.

By contrast, USAID officials told us that DABS "has no clue how to do M&E." They said USAID made DABS responsible for developing the M&E plan as a "training exercise," though they acknowledged that DABS did not appear to have learned much. USAID also said that DABS's M&E department had high turnover and that its current M&E officials are not experts and require further training.

We also found that neither DABS nor USAID kept data in the Afghan Info system up to date, despite USAID/Afghanistan guidance requiring DABS to enter indicator performance data into Afghan Info on a regular basis and USAID on-budget monitors to upload indicator data when DABS failed to do so.⁴⁵ When we analyzed the data available in Afghan Info in August 2018, we found that in some cases, the data reported to us by USAID differed significantly from the data DABS reported in Afghan Info. In its comments on a preliminary summary of our audit findings, USAID stated that it updated Afghan Info to mirror its own indicator dataset. However, when we analyzed the data available on Afghan Info in April 2019, we found that while the data now closely mirrored USAID's dataset, there were still differences in the indicators and indicator results. In its comments on our draft report, USAID stated that Afghan Info is retrospective, and that due to the difference in reporting cycles between USAID and DABS, Afghan Info will not always be synchronized with USAID's dataset.

DABS officials told us that its M&E department was ultimately responsible for uploading indicator data into Afghan Info, and DABS M&E officials told us they had no technical issues using the platform. However, these DABS officials said that sometimes contractors and other DABS departments emailed their indicator data directly to USAID/Afghanistan and forgot to copy the M&E department. When we asked USAID officials why there

⁴⁴ ADS 220.3.4(c)(4), partially revised November 27, 2018, p. 41.

⁴⁵ USAID/Afghanistan, Mission Order 203.04 "Mission Order on Performance Monitoring." Issued March 29, 2016.

were missing indicator data in Afghan Info, they explained that USAID had to approve the data DABS submits before they appear in the system. Because of differences in DABS's and USAID's reporting cycles, sometimes a lag of up to 3 months occurs between when DABS submits data and when USAID reports them.

USAID Did Not Consistently Verify DABS's Performance Data, Despite Concerns That These Data Were Inaccurate

Although USAID, DABS, Tetra Tech, and Checchi officials raised concerns about the data DABS provided to demonstrate progress toward PTEC's intended outcomes, neither USAID nor a third party verified the data. ADS 201 states that when data do not meet standards of validity, integrity, precision, reliability, and timeliness, it "could result in an erosion of confidence in the data or could lead to poor decision making."⁴⁶ By not verifying all DABS data, despite concerns about its accuracy, USAID risked making misguided management decisions about PTEC based on incorrect information.

ADS guidance requires that missions ensure the quality of indicator data they receive about a project's performance because "high-quality data are the cornerstone for evidence-based decision making."⁴⁷ It further states that while implementing partners like DABS typically propose and execute M&E plans, USAID "must track implementation progress; monitor the quantity, quality, and timeliness of activity outputs; monitor achievement of activity outcomes; and ensure the quality of performance monitoring data collected by partners."⁴⁸ USAID guidance requires that missions measure indicator data quality against five standards: validity, integrity, precision, reliability, and timeliness.⁴⁹ Missions are to evaluate the five standards by performing data quality assessments for each indicator and to document the results. When an assessment finds that indicator data does not meet any one of the five standards, the mission must address those limitations. Additionally, a USAID/Afghanistan mission order states that USAID must have a third party assess each indicator at least once every 3 years.⁵⁰

Our analysis showed that USAID complied with ADS and mission order guidance to perform annual data quality assessments; however, Checchi, the third party assessor, raised concerns about USAID's assessment methodology. Checchi officials said USAID gave them "very tight" timelines to do the assessments, USAID's required checklists could be misleading, USAID/Afghanistan officials would not sit for interviews, and USAID did not want Checchi to review how USAID processed the indicator data it received from DABS and other implementing partners. USAID officials disagreed with Checchi's concerns, stating that Checchi agreed to perform the assessment methodology described in its Statement of Work, that Checchi never expressed its concerns or requested interviews, and that data quality assessments are not meant as an audit of the indicator data but as a review of each implementing partner's ability to obtain and submit accurate indicator data.

Checchi's assessments found that all of the PTEC indicators were "satisfactory."⁵¹ However, Checchi officials explained to us that "satisfactory" was a term they used to note that, although DABS's indicator data looked acceptable, there were weaknesses in its data collection methods. Additionally, Checchi scored one indicator associated with PTEC, "number of people employed through U.S. government assistance in infrastructure activities," as high-risk. For that high-risk indicator, Checchi concluded that implementing partners were not using clear indicator terminology and definitions, following consistent data collection procedures, transcribing data correctly, or maintaining precision due to improper disaggregation of data. Checchi reassessed this indicator in 2017 and found that although consistency had improved, variations in measurement continued.

⁴⁶ ADS 201.3.5.8(A), partially revised October 29, 2018, p. 119.

⁴⁷ ADS 201.3.5.8(A), partially revised October 29, 2018, p. 119.

⁴⁸ See ADS 201.3.4.10(B)(I), partially revised October 29, 2018, p. 104.

⁴⁹ For more information on the five standards (validity, integrity, precision, reliability, and timeliness), see ADS 201.3.5.8(A), partially revised October 29, 2018, pp. 119–120.

⁵⁰ USAID/Afghanistan, Mission Order 203.04, "Mission Order on Performance Monitoring," Section 5.5, March 29, 2016.

⁵¹ Checchi, *2017 Data Quality Assessment of USAID/Afghanistan Program Performance Indicators*, December 2017, p. 71

Furthermore, Checchi officials told us USAID had no system in place to validate DABS's indicator data and that it is "hard to imagine there is a discerning eye" when USAID is reviewing them. USAID officials disagreed, stating that they validate DABS's data by comparing them against data reported by third-party sources, such as Tetra Tech and other donors.

Tetra Tech, which was responsible for providing monthly quality assurance reports for all PTEC construction activities, also expressed concerns to both us and USAID about DABS and its contractors deliberately reporting misleading performance information to USAID. In a report about one activity, Tetra Tech observed that the contractor reported it would finish on schedule, but "[our] analysis indicates that the use of scheduling compression techniques, faulty logic, use of exaggerated resources, and inaccurate progress estimates by the contractor have artificially constrained the schedule to finish within the period of performance."⁵² A senior Tetra Tech official told us that DABS and its contractor knew that indicator data about construction progress were inaccurate, but chose to report the misleading numbers to paint a more optimistic picture in response to pressure from the DABS Board of Directors, Afghanistan's President, and USAID.

USAID officials have explained that DABS reported potentially inaccurate indicator data because it also lacked the equipment needed to collect those data accurately. For example, DABS needed to install bulk metering systems at major load centers to accurately measure data on MWs supplied and consumed. According to USAID officials, DABS used simple calculations to approximate these figures in lieu of data from bulk meters. For instance, USAID officials said that because DABS knows how much money it spends on electricity and how much in revenue it collects, it calculates losses by subtracting revenues collected from the total cost of the MWs supplied. However, these USAID officials told us that without bulk meters, DABS has no way of knowing where or why these losses are happening. DABS officials said that older meters in some areas allow for limited data collection and verification, but installing the new bulk meters would allow them to better measure losses and provide accurate indicator data.

USAID officials told us they believed their data for the two construction-related output indicators were reliable because Tetra Tech provided oversight of construction activities and submitted independent, monthly quality assurance reports. When there were differences between DABS and Tetra Tech reports, the USAID officials said they accepted Tetra Tech's information by default. However, they conceded that USAID relied on "soft" indicator data from DABS to track the four remaining indicators, and that third parties, such as Checchi, did not have "the right tools" to do a full audit of these data.

USAID CONTINUED FUNDING ON-BUDGET ACTIVITIES EVEN THOUGH DABS DID NOT MEET AGREED-TO REQUIREMENTS, AND USAID'S OVERSIGHT APPROACH EXPOSED U.S. FUNDING TO RISKS OF WASTE, FRAUD, AND ABUSE

Assessments conducted by USAID in 2011 and 2012 determined that DABS was not yet capable of responsibly managing PTEC funding. In response, USAID made on-budget assistance conditional and required DABS to develop and implement plans to improve its public financial management practices and internal controls.⁵³ DABS initially complied by developing all the planning documents that USAID required and making some institutional improvements. However, by 2017, it became evident that DABS had not implemented all the

⁵² Tetra Tech, *JO-P-0009: Arghandi-Ghazni Substations, Monthly Report No. 4, May 1, 2017 – May 31, 2017*, July 5, 2017. Schedule compression techniques shorten or accelerate the schedule duration without reducing project scope to meet schedule constraints, imposed dates, or other schedule objectives. Examples of schedule compression techniques include "crashing," i.e. paying to add additional resources to the project (such as approving overtime), and "fast tracking," i.e. taking tasks that would normally be done in sequence and performing them in parallel. These techniques may result in increased costs or risk diminished quality. See Project Management Institute, *A Guide to the Project Management Body of Knowledge*, 6th ed, 2017, p. 215.

⁵³ We are currently conducting a separate review of DABS to (1) identify the policies, procedures, information technology systems, and mechanisms DABS has in place to manage and account for funds it receives from donors, and (2) assess the extent to which DABS ensures that the funds are managed properly, accounted for, and being used as intended.

reforms to which it had committed. Furthermore, USAID's oversight approach may have enabled waste, fraud, and abuse. DABS's weak internal controls and USAID's limited oversight, combined with conflicts of interest among PTEC contractors, put U.S. funds at risk. In May 2017, allegations of high-level corruption at DABS emerged; finding these credible, USAID's senior leadership immediately pulled \$399.5 million in PTEC funding off-budget. However, USAID continued to obligate \$128.8 million toward three on-budget activities, which may have put those funds at risk of misuse or fraud.

USAID Did Not Hold DABS Accountable for Correcting Public Financial Management and Internal Controls Weaknesses

ADS guidance requires USAID to perform a public financial management risk and internal controls assessment prior to disbursing on-budget funding to an implementing partner. If USAID/Afghanistan identifies any weaknesses, it must mitigate them through capacity building, imposition of additional controls, or other measures.

USAID completed two such assessments before disbursing funding to DABS: the first by Ernst & Young on August 22, 2011, and the second by USAID/Afghanistan's Office of Financial Management on October 23, 2012.⁵⁴ Ernst & Young's assessment identified 49 weaknesses. It rated 34 of them as high risk, needing the immediate attention of DABS senior leadership; 14 as medium risk, needing an agreed action plan for prompt resolution; and 1 as low risk, needing an action plan for resolution. In its follow-up assessment 1 year later, USAID/Afghanistan's Office of Financial Management found that while "DABS has taken some measures to address several of the weaknesses identified in the initial assessment, our review found that DABS' [sic] systems and internal controls are still not adequate to properly manage and account for donors' funds."⁵⁵ However, the office concluded that by "approaching assistance with precaution and conditions," USAID could "reasonably mitigate" the significant operational risks within DABS.⁵⁶

In response to these two assessments, USAID prioritized the 49 weaknesses according to their potential impact, and consolidated them into 11 "conditions precedent" that DABS would be required to implement before USAID disbursed PTEC funding.⁵⁷ Nine of these conditions precedent required DABS to develop planning documents to improve operational areas such as financial management, procurement, and human resources; the remaining two conditions precedent required DABS to complete externally-audited financial statements for fiscal years 2010 and 2011, and to hire internationally qualified and experienced experts to address technical issues at Tarakhil Power Plant.⁵⁸

DABS agreed to implement the conditions precedent by signing an implementation letter with USAID on January 9, 2013. In this same implementation letter, DABS also agreed to submit quarterly reports documenting its progress toward achieving the key performance indicators in each of the nine planning documents described above, and annual audited financial statements from certified public accounting firms each year starting in

⁵⁴ For more on these assessments, see SIGAR, *Direct Assistance: USAID Has Taken Positive Action to Assess Afghan Ministries' Ability to Manage Donor Funds, but Concerns Remain*, SIGAR 14-32-AR, January 30, 2014.

⁵⁵ USAID/Afghanistan Office of Financial Management, "Public Financial Management Risk Assessment Framework: Government of the Islamic Republic of Afghanistan Da Afghanistan Breshna Sherkat," October 23, 2012, p. 6.

⁵⁶ USAID/Afghanistan Office of Financial Management, Public Financial Management Risk Assessment Framework, October 23, 2012, p. 7.

⁵⁷ Additionally, USAID directed a twelfth condition precedent toward the Afghan Ministry of Finance. The ministry was required to establish a special dollar account for the PTEC project and provide the routing number, user name, and password to USAID.

⁵⁸ Tarakhil Power Plant is a diesel-fired power plant located east of Kabul. Appendix VII summarizes USAID's conditions precedent.

2012.⁵⁹ USAID officials said that they also adopted other risk mitigation measures, such as requiring DABS to submit all of its contractors' invoices to USAID for approval.

On February 14, 2013, Ernst & Young completed a follow-up review of DABS's public financial management and internal controls systems. Ernst & Young concluded that DABS had fully addressed 32 of the 49 previously identified weaknesses and partially addressed 15, but had not addressed 2 at all. Ernst & Young also identified 9 new weaknesses. Ernst & Young concluded that "DABS' [sic] current policies, procedures, and internal controls framework are sufficient to properly manage and account for funds from USAID/Afghanistan for its projects," except for the 26 open items, "which we believe could be material controls weaknesses having adverse impact on DABS' [sic] capacity."⁶⁰ On December 5, 2013, USAID certified that DABS had satisfied all 11 conditions precedent required of it in the January 2013 letter.⁶¹

However, we found that after resolving the 32 weaknesses and satisfying USAID's 11 conditions precedent, DABS made little progress in addressing the 26 remaining weaknesses and implementing the ongoing requirements described in the January 2013 implementation letter. Moreover, between February 2013 and July 2018, USAID did not perform a follow-up assessment measuring DABS's progress. USAID/Afghanistan's Office of Financial Management produced a risk mitigation plan in August 2017 and concluded that only one of the remaining open weaknesses might affect PTEC activities but that DABS still needed to address the other weaknesses to improve its institutional capacity.⁶²

In a July 2018 follow-up report, USAID found that DABS had fully addressed 8 of the 26 open weaknesses, partially addressed 11 weaknesses, and not addressed 7 weaknesses. The one weakness that USAID/Afghanistan expected might affect PTEC activities in 2017 was among the eight that DABS fully addressed. USAID/Afghanistan concluded that the low implementation rate resulted from a lack of coordination from DABS management, a general lack of oversight, high-level management turnover at DABS, and the lack of budgetary resources to address some recommendations effectively.⁶³

Although DABS developed the nine plans required by its January 2013 implementation letter with USAID, it did not fully implement at least four. In its midterm evaluation of PTEC's commercialization activities, Checchi found "significant gaps" in DABS's implementation of its M&E, asset management, procurement, and information technology improvement plans. During an interview with us on November 17, 2018, USAID officials expressed frustrations that DABS still had not developed a mechanism to pre-qualify vendors for recurrent purchases nor implemented its new information technology business continuity and disaster recovery plans, despite these being explicitly required in the January 2013 implementation letter.

Additionally, DABS did not complete its audited financial statements for fiscal year 2016 until November 21, 2017, 20 months after that fiscal year ended, and did not complete its audited financial statements for fiscal year 2017 until October 6, 2018, more than 18 months after that fiscal year had ended. Phoenix assisted DABS in preparing audited financial statements as part of its contract to provide technical assistance and capacity building, but Phoenix's contract concluded in October 2017. According to Checchi, DABS's financial officers said that "things will start falling apart in the weeks after Phoenix's departure" and that DABS would not be able to produce the documentation required for financial statements without Phoenix.⁶⁴

⁵⁹ USAID, "Implementation Letter Number IL-22-2 for the Power Transmission Expansion and Connectivity (PTEC) Project, conditions precedent and on-going commitments for the disbursement of funds," January 9, 2013.

⁶⁰ Ernst & Young, *Report on Assessment: Da Afghanistan Breshna Sherkat*, January 2013, unnumbered third page. Appendix VIII summarizes the status of DABS's internal controls weaknesses in Ernst & Young's August 22, 2011, and February 14, 2013, assessments.

⁶¹ USAID, "Implementation Letter Number 22-12 for the Power Transmission Expansion and Connectivity (PTEC) Project, Satisfaction of Conditions Precedent by Da Afghanistan Breshna Sherkat (DABS)," December 5, 2013.

⁶² Specifically, this weakness was that DABS lacked a process for stamping payment documents as "received," "paid," and "posted." USAID concluded that this might lead to improper, duplicate, or delayed payments to DABS contractors.

⁶³ USAID/Afghanistan Office of Financial Management, *Follow-Up Review of the Public Financial Management Risk Assessment: Da Afghanistan Breshna Sherkat (DABS)*, July 2018, pp. 7-8.

⁶⁴ Checchi, Mid-Term Performance Evaluation, p. 18.

Conflicts of Interest Undermined USAID's Oversight of DABS and Its Contractors

USAID and DABS assigned tasks to PTEC contractors in violation of USAID guidance prohibiting various forms of conflict of interest. These conflicts of interest cast doubt on the impartiality of the data and assessments that USAID used to evaluate PTEC's performance, and raise questions about whether some PTEC contractors actually performed at the level reported by USAID.

For instance, DABS officials told us that one of its contractors, Phoenix, was the primary author of PTEC's original M&E plan. USAID officials indicated to us they were aware of this, and acknowledged that it was a conflict of interest for Phoenix to develop indicator targets and collect the data used to measure its own performance. For example, in the M&E plan, Phoenix set annual targets for an indicator measuring the number of days consultants provided technical assistance to DABS. Phoenix then collected data showing that all PTEC consultants, including those working for Phoenix, met the annual targets for this indicator exactly—even in one year for which Phoenix claimed consultants worked all 365 days of the year.⁶⁵ DABS M&E officials told us they questioned Phoenix on this result; Phoenix insisted the information was correct and DABS M&E officials were unable to verify the data because they could not view Phoenix's invoices. USAID officials were also skeptical of Phoenix's results, noting that consultants would not have been working every day in a year.

Furthermore, in 2014, USAID tasked Phoenix with performing a follow-up assessment to evaluate DABS's progress in addressing the 26 public financial management and internal controls weaknesses previously identified by Ernst & Young. In doing so, USAID violated ADS 220, which states the following:

Potential conflicts of interest must be avoided or mitigated when a contractor or private sector [sic] support the Stage 2 Risk Assessment function. For example, the same firm providing such assessment services may not implement or assist in the implementation of any [public financial management] mitigation or capacity development activities.⁶⁶

Because Phoenix was directly responsible for building DABS's capacity and helping it address the risks identified by Ernst & Young, its progress reporting may not have been impartial. In response to our draft report, USAID acknowledged this conflict of interest and stated it "should have considered and mitigated potential conflicts of interest in relation to Phoenix's contributions to the DABS Monitoring-and-Evaluation Plan and the firm's follow-up assessment of DABS's progress on its public financial management and internal controls."

USAID Office of Inspector General investigators told us they also observed conflicts of interest. Specifically, the investigators found instances of Phoenix officials embedded in DABS's Finance Department approving Phoenix's own invoices. These investigators told us that USAID's on-budget monitors, who were responsible for reviewing and approving the invoices for payment, did not know this was occurring, and that USAID only became aware of the problem when its Government-to-Government office performed an independent review. Investigators said after the Government-to-Government office identified the problem, it informed Office of Inspector General's investigators, and DABS stopped the Phoenix consultants from approving Phoenix invoices.

Ernst & Young, too, received tasks that created potential conflicts of interest. In its 2011 and 2013 risk assessments, Ernst & Young found that DABS did not have financial statements that complied with International Financial Reporting Standards, did not report a cash flow statement, lacked a fixed asset registry, and had not verified fixed assets physically.⁶⁷ USAID subsequently authorized DABS to award a contract to Ernst & Young to address these deficiencies, even though ADS 220 states that the same firm providing a risk assessment may not then be tasked with risk mitigation activities because it creates a conflict of interest. This situation may have had a negative impact on USAID and DABS's ability to monitor Ernst & Young's performance. For instance,

⁶⁵ Specifically, Phoenix reported working 306 days against a 306-day target in fiscal year 2014, and 365 days against a 365-day target in fiscal year 2015.

⁶⁶ ADS 220.3.3.2(a)(3)(c), partially revised November 27, 2018.

⁶⁷ International Financial Reporting Standards are a set of accounting standards developed by the International Accounting Standards Board to be the global standard for preparing public companies' financial statements.

USAID reported in July 2018 that Ernst & Young performed a 100 percent validation of DABS physical assets and that “all the assets were accounted for and tagged for proper inventory recording purposes.”⁶⁸ However, Grant Thornton Afghanistan, the firm charged with auditing DABS’s fiscal year 2017 financial statements, issued a qualified opinion on October 6, 2018, highlighting how Ernst & Young used a flawed approach for valuing certain DABS fixed assets.⁶⁹ In response to our draft report, USAID acknowledged this conflict of interest and stated it “should have considered and mitigated potential conflicts of interest when the Mission in Kabul gave consent to DABS to award a contract to Ernst & Young to address the findings of risk-assessments of DABS’s financials systems and fixed-asset registry.”

USAID’s Reliance on DABS for Oversight and Concentration of Responsibility in the Agency’s On-Budget Monitors Exposed U.S. Funds to Risks of Waste, Fraud, and Abuse

USAID/Afghanistan did not develop multi-tiered monitoring plans in accordance with its mission order, did not regularly send U.S. government or third-party monitors to DABS, and concentrated too much oversight responsibility in the role of individual on-budget monitors.

USAID/Afghanistan’s Mission Order 203.04 required USAID to develop a multi-tiered monitoring plan for every on-budget contract. These plans should have included data from at least three of five tiers:

- Tier 1—direct U.S. government observation
- Tier 2—contractor reporting
- Tier 3—information from the Afghan government and international donors
- Tier 4—information from civil society organizations and program beneficiaries
- Tier 5—third-party monitor reporting

Mission Order 203.04 states that if it is not possible to have oversight from at least three tiers due to an activity’s unique characteristics, the plan must justify the reasons for using fewer tiers.⁷⁰ DABS had 10 PTEC-funded, on-budget contracts that were active after USAID implemented Mission Order 203.04 in March 2016. We analyzed these contracts to determine whether USAID followed the order, and found that USAID created monitoring plans for 9 of them. USAID documented an explanation for the one missing plan. Appendix IX summarizes our analysis.

We found inconsistencies among the nine plans USAID completed. Two plans listed only two tiers, both stating:

The nature of the award, and terms of the obligating document between USAID and DABS require Tier 1 and 2 to monitor activities. Therefore monitoring data collected from these two tiers will not be corroborated using external sources.

Although updated USAID/Afghanistan guidance allows fewer than three tiers to be used when using three tiers “is not possible based on the terms of an activity’s obligating documents,” this statement does not explain why using a third tier was not possible in these two cases.⁷¹ In some plans, USAID considered DABS to be the

⁶⁸ USAID/Afghanistan Office of Financial Management, Follow-Up Review of the Public Financial Management Risk Assessment, p. 15.

⁶⁹ An auditor issues a qualified opinion when he or she, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements. Specifically, Grant Thornton Afghanistan did not agree with Ernst & Young’s method for determining the value of DABS’s land and hydroelectric assets, and stated that DABS was unable to provide documentation on how Ernst & Young determined those values. Grant Thornton Afghanistan, *Independent Auditors’ Report to the shareholders of Da Afghanistan Breshna Sherkat*, October 6, 2018.

⁷⁰ Mission Order 203.04, “Mission Order on Performance Monitoring,” March 29, 2016. On September 20, 2017, USAID’s Mission Director issued updated guidance combining Tier 1 with Tier 5 and Tier 3 with Tier 4, and requiring multi-tiered monitoring plans to use all three tiers. Because Mission Order 203.4 was the guidance that was in effect when USAID developed its plans for PTEC, this report discusses compliance with that order.

⁷¹ Mission Order 201.05, “Mission Order on Performance Monitoring,” September 20, 2017, p.7.

“contractor” for the purposes of Tier 2 reporting, but in other plans, USAID considered DABS to be the “program beneficiary” for the purposes of Tier 4 reporting. For three of the four DABS commercialization contracts, USAID double counted DABS by listing it as both the Tier 2 contractor and the Tier 4 beneficiary.

Furthermore, USAID listed Tier 1 (direct U.S. government observation) in every monitoring plan, yet USAID monitors were generally unable to travel to PTEC work sites. USAID officials told us that the deteriorating security situation since 2014 was a “major challenge” and made it very difficult for agency staff to leave the U.S. Embassy in Kabul. One USAID on-budget monitor told us he was able to travel to DABS’s headquarters in Kabul once a month to observe DABS’s meetings with Ernst & Young auditors, but two others told us they were never able to visit their construction work sites in Kandahar, Ghazni, and the Salang Tunnel. A fourth monitor told us he performed two construction site visits per year on average, but his last visit was in October 2017. USAID officials told us that instead of visiting construction work sites, on-budget monitors represented USAID in weekly conference calls between DABS and its contractors, reviewed contract invoices, and attended factory acceptance tests for construction materials in their countries of origin.

USAID used Tetra Tech as its third-party monitor for the infrastructure construction contracts DABS managed, but did not employ third-party monitors to oversee the commercialization activities DABS managed, including DABS’s contract for the bulk meters activity. We found that USAID effectively had two forms of oversight at construction work sites: DABS and Tetra Tech. For work at DABS’s headquarters and regional offices, USAID entrusted DABS alone to conduct oversight and accountability. In its mid-term evaluation, Checchi found that in at least some cases, DABS relied on its main commercialization contractor, Phoenix, to draft the monthly commercialization progress reports and then submitted the reports to USAID.⁷² Checchi found several deficiencies in these Phoenix and DABS monthly reports, stating that they “generally did not report on specific reasons why the activities were not carried out, or only provided very general reasons,” “did not mention problems with implementation of activities, particularly those caused by the contractor,” and “did not mention any deviations from the work plan.”⁷³ Additionally, Checchi reported that commercialization activities suffered from DABS’s “lack of effective supervision of Phoenix staff.”⁷⁴ Checchi reported that DABS and Phoenix believed their reporting arrangement worked well for identifying issues and taking action to address them. However, Checchi’s findings indicate that Phoenix operated with little to no oversight from USAID, DABS, or a third party.

USAID Office of Inspector General investigators raised additional concerns about the way USAID/Afghanistan approached oversight. The investigators told us that USAID/Afghanistan assigned on-budget monitors by contract, not by contractor. USAID/Afghanistan had only one on-budget monitor and an alternate to monitor each PTEC on-budget contract, whereas a typical off-budget contract is monitored by a team of at least three people. Moreover, the investigators said USAID/Afghanistan’s on-budget monitors often did not communicate with each other, even when they were monitoring the same contractor. The investigators said these monitoring weaknesses exposed USAID funds to risks of waste, fraud, and abuse. For example, because DABS awarded three contracts to one contractor, and a separate USAID on-budget monitor reviewed each contract, that contractor was able to double- or triple-invoice for the same overhead costs across all of its contracts. The USAID Office of Inspector General investigators told us that no one caught this problem until they analyzed the invoices as part of an ongoing investigation.

Despite Institutional Vulnerabilities to Corruption at DABS, USAID Continues to Provide On-Budget Assistance

In May 2017, allegations of corruption emerged about DABS’s then-chief executive officer, and in December 2017, Afghanistan’s Independent Joint Anti-Corruption Monitoring and Evaluation Committee released an

⁷² USAID officials clarified to us that Phoenix consultants and DABS departmental heads would hold monthly meetings, and then Phoenix would draft a monthly report based on these meetings.

⁷³ Checchi, Mid-Term Performance Evaluation, October 26, 2017, p. 15.

⁷⁴ Checchi, Mid-Term Performance Evaluation, October 26, 2017, p. 15.

assessment finding 71 vulnerabilities to corruption at DABS.⁷⁵ USAID responded by shifting \$399.5 million in PTEC funding from on-budget to off-budget, but continued to provide on-budget assistance to DABS for three ongoing activities because DABS had already awarded the contracts. This potentially put USAID's funds at risk.

According to a USAID Office of Inspector General investigator, allegations emerged in May 2017 that DABS's then-chief executive officer took a bribe to award a \$135 million PTEC contract to the China Energy Engineering Group Northwest Power Construction Engineering Corporation Ltd. to construct the five 220 kV substations between Ghazni and Kandahar. USAID/Afghanistan's Mission Director told us that USAID found these allegations credible and as a direct result, decided it would not approve any new PTEC activities to be executed on-budget by DABS.⁷⁶ Furthermore, in interviews with us, Tetra Tech and DABS officials indicated their suspicions that there may have been improprieties related to decisions by DABS's senior leadership to award a \$9.9 million SEPS Completion contract and the \$7 million bulk meter procurement and installation contract to other Chinese firms.

ADS 220 requires USAID/Afghanistan to "monitor, evaluate, and provide oversight" of partner government procurement systems.⁷⁷ Yet USAID approved DABS to award all three of these contracts on-budget, and only prevented DABS from awarding the \$135 million substations contract and the \$9.9 million SEPS Completion contract by revoking its consent just before DABS awarded them. USAID officials told us that they had limited oversight of the Afghan government's procurement systems, particularly after the Afghan government established the National Procurement Authority in October 2014. They said Tetra Tech officials assisted DABS with evaluating technical proposals, but after that, USAID lost all visibility over the on-budget contracts that DABS awarded with PTEC funding.

ADS 220 states that if there is clear evidence of institutional vulnerabilities to corruption and the implementing partner fails to respond with appropriate policies and actions, USAID missions should refrain from contributing on-budget assistance to that implementing partner.⁷⁸ USAID did not comply with this guidance because it continued to provide \$128.8 million in on-budget assistance to DABS for its ongoing work on the 220 kV transmission line between Ghazni and Kandahar, the 220 kV substation and 20 kV network at the Salang Tunnel, and the installation of bulk meters at five major load centers. Although Tetra Tech continued as a third-party monitor for the first two activities, USAID had no independent oversight for the bulk meters activity.

According to a senior USAID/Afghanistan official, USAID/Afghanistan disagreed with providing on-budget assistance to DABS in the first place and expressed concerns about DABS's ability to manage on-budget assistance. However, the USAID Administrator at the time supported the use of on-budget assistance,⁷⁹ and the senior official told us that USAID's leadership overruled USAID/Afghanistan. Regardless of these earlier misgivings, USAID continued to provide on-budget assistance to DABS even after allegations of corruption emerged in May 2017 that USAID/Afghanistan's leadership found credible. USAID explained in a February 2018

⁷⁵ Independent Joint Anti-Corruption Monitoring and Evaluation Committee, *Vulnerability to Corruption Assessment of Da Afghanistan Breshna Sherkat (DABS)*, December 2017. The Independent Joint Monitoring and Evaluation Committee is a hybrid oversight organization in Afghanistan that consists of three experienced international anti-corruption experts selected by an international nomination committee and three local eminent persons selected by the Afghan president. Its mandate is to create anti-corruption benchmarks for the Afghan government and international community, and to independently monitor and evaluate progress in meeting those benchmarks through quarterly meetings in Kabul.

⁷⁶ According to the USAID Office of Inspector General investigator, the former chief executive officer was not charged with corruption violations, but was removed from his position at DABS.

⁷⁷ ADS 220.3, partially revised November 27, 2018, p. 13.

⁷⁸ ADS 220.3.3.5(n), partially revised November 27, 2018, p. 37.

⁷⁹ In a June 1, 2011, letter to the Chairman of the Senate Committee on Foreign Relations, the then-USAID Administrator, Rajiv Shah, explained:

USAID is committed to building the capacity of the Afghan government, and spending a substantial portion of our development assistance through the Afghan budget, while ensuring the accountability, integrity, and transparency of those funds...Overall, we currently spend approximately 38 percent of our funds on-budget. We plan to increase direct funding, but only when ministries are able to execute the development funds that they do receive and do so accountably.

letter to DABS that it would continue to reimburse DABS for contracts already awarded with USAID consent.⁸⁰ USAID/Afghanistan officials told us that by continuing to review and approve all invoices and disbursements to DABS, USAID expected to mitigate fraud weaknesses going forward. However, given USAID/Afghanistan's history of missing the potential indicators of fraud within earlier invoices submitted by DABS and its contractors, USAID may currently be putting money at risk by continuing to obligate \$128.8 million in PTEC funding for DABS's ongoing contracts.

USAID DID NOT COMPLETE NECESSITY AND SUSTAINABILITY ASSESSMENTS FOR MOST PTEC CAPITAL PROJECTS AND MADE FAULTY ASSUMPTIONS IN COMPLETED ASSESSMENTS

USAID did not perform necessity and sustainability assessments for all capital projects funded by PTEC, as required by law.⁸¹ Although Congress required in 2013 that USAID perform a necessity and sustainability assessment for any capital project funded in Afghanistan valued at more than \$5 million, USAID did not do so for 7 of the 10 capital projects that PTEC funded. Because USAID did not assess whether these capital projects were necessary and sustainable before initiating them, USAID and Congress may have lacked the information needed to make fully informed decisions about whether to prioritize these projects over others. Moreover, although USAID completed necessity and sustainability assessments for 3 of the 10 projects, these assessments contained critical assumptions about Afghanistan's power supply and DABS's commercial viability that have not proven correct in subsequent years. Taken together, these faulty assumptions may result in USAID wasting U.S. taxpayer funds on power infrastructure that the Afghan government cannot use or sustain.

USAID Did Not Conduct Necessity and Sustainability Assessments for 7 of the 10 Capital Projects Funded by PTEC

Section 1273 of the National Defense Authorization Act for Fiscal Year 2013 requires USAID to perform an "assessment on the necessity and sustainability" of any capital project in Afghanistan to which more than \$5 million in USAID funding is obligated or expended.⁸² This section went into effect on March 3, 2013, and stated that before obligating or disbursing funding toward such projects, USAID must submit an assessment containing the following elements:

- an estimate of the total cost of the completed project to the United States;
- an estimate of the financial and other requirements necessary for the host government to sustain the project on an annual basis after completion of the project;
- an assessment of whether the host government has the capacity (in both financial and human resources) to maintain and use the project after completion;
- a description of any arrangements for the sustainment of the project following its completion if the host government lacks the capacity (in financial or human resources) to maintain the project;
- an assessment of whether the host government has requested or expressed its need for the project, and an explanation of the decision to proceed with the project absent such request or need; and

⁸⁰ USAID/Afghanistan, "Implementation Letter (IL) 22-84 to Reprogram \$336,972,625 in DABS On-Budget Support," February 28, 2018.

⁸¹ According to 22 U.S.C. § 2421e, a "capital project" is defined as "a project involving the construction, expansion, alteration of, or the acquisition of equipment for, a physical facility or physical infrastructure, including related engineering design (concept and detail) and other services, the procurement of equipment (including any related services), and feasibility studies or similar engineering and economic services."

⁸² National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, § 1273 (codified as amended at 22 U.S.C. § 2421f).

- an assessment, where applicable, of the project’s effect on the U.S. military mission in Afghanistan.

To meet Section 1273’s requirements, USAID had to complete necessity and sustainability assessments for 10 PTEC capital projects. USAID provided two such assessments to Congress: one completed on November 19, 2013, covering SEPS Completion, and one on September 12, 2014, covering two capital projects, the 220 kV transmission line and five 220 kV substations planned between Ghazni and Kandahar. These assessments generally delivered the information Congress required.⁸³ However, USAID did not provide us with a necessity and sustainability assessment for any of the other seven capital projects funded by PTEC, and stated that it had not completed them. All of these projects started after March 3, 2013, and met the dollar threshold of more than \$5 million, so therefore were required to have had the assessments.⁸⁴

When we asked USAID officials to explain why they did not prepare necessity and sustainability assessments for the seven capital projects, they explained that they did not do so for the two ADB-managed capital projects because USAID supports them through a Public International Organization-type grant.⁸⁵ However, USAID cited no legal authority showing that these grants are exempt from Section 1273 (which ties the assessment requirement to USAID funding for capital projects, not USAID’s method for implementing capital projects). Furthermore, although Section 1273 explicitly exempts military construction and military family housing, it makes no exemption for Public International Organization-type grants. Therefore, absent additional legal authority to the contrary, we conclude that the requirements under Section 1273 apply to the contributions USAID made to the Afghanistan Infrastructure Trust Fund for the ADB-managed projects.

USAID acknowledged that it did not complete the required necessity and sustainability assessments for the five remaining capital projects.

USAID’s Necessity and Sustainability Assessments for PTEC Depended on Faulty Assumptions

USAID’s 2013 and 2014 necessity and sustainability assessment reports for PTEC’s capital projects relied on several critical assumptions that have not proven correct in subsequent years. One of USAID’s assumptions was that Afghanistan would increase its supply of energy to Kabul, allowing DABS to use PTEC infrastructure to transmit excess power from Kabul south to Kandahar and beyond. However, a load flow study commissioned by USAID and ADB stated that as of March 2018, Kabul had 484 MW of power, well below the city’s 600-to-1,000 MW need.⁸⁶ This load flow study projected that by 2021, Kabul’s demand will increase to between 800 and 1,200 MW. USAID officials told us that DABS installed an additional transformer at Chintala substation later in 2018, which increased Kabul’s power supply by 50 MW, bringing it to a total of 534 MW. If the Afghan government intends to meet Kabul’s minimum demand before sending power to Kandahar, the government would need to supply at least an additional 266 MW of electricity to Kabul by 2021.

As of March 2018, Kabul received about 197 of its 534 MW of power from domestic power plants; by 2021, this supply will likely increase by 39 MW.⁸⁷ DABS imports the other 337 MW from Uzbekistan and Tajikistan through a 220 kV double-circuit transmission line running over the Salang Pass. USAID officials pointed out that DABS could theoretically increase supply to Kabul from the nearby diesel-fired Tarakhil Power Plant by as much as 70 MW, but a senior DABS official told us this would be too expensive to be feasible. USAID officials agreed that additional power would need to be supplied from north of the Salang Pass.

⁸³ For more discussion about the SEPS Completion assessment, see SIGAR, Afghanistan’s Energy Sector, SIGAR 19-37-AR.

⁸⁴ Appendix X summarizes information about these capital projects.

⁸⁵ A public international organization is an organization composed of multiple member states, such as the World Bank.

⁸⁶ Dynamic Vision, *Load Flow Analysis Report: NEPS – SEPS Connector Supply*, March 2018, p. 34. The 600 MW is “serviceable demand,” the amount of energy that the existing infrastructure can safely supply without overloading. The 1,000 MW is “suppressed demand,” the number of connections, both licit and illicit, to the power grid.

⁸⁷ Dynamic Vision, *Load Flow Analysis Report*, pp. 33 and 38.

According to the March 2018 load flow study, Afghanistan should be capable of importing enough power from the north to meet Kabul's demand and divert 127 MW toward Kandahar by January 2021. However, the report assumes that the Afghan government would be able to eliminate several constraints on its ability to import and transmit power. Specifically, the Afghan government would need to:

- complete an ADB-funded 500 kV transmission line connecting Kabul to the north;
- install capacity in Kabul to “step down” (decrease voltage while increasing current) this 500 kV electricity so it can be transmitted over the USAID-funded 220 kV PTEC lines;
- resolve issues related to energy imported from both Tajikistan and Uzbekistan; and
- complete the ADB-funded transmission lines connecting Turkmenistan to Kabul's power grid.

Furthermore, the March 2018 load flow study concluded that the 110 kV SEPS system servicing Kandahar is “in a degraded condition with poor reliability” and that there is a very high risk that only a small portion of the network would be capable of handling PTEC's 220 kV power by 2021.⁸⁸ If one or more of these constraints are not resolved, DABS may not have power to transmit to Kandahar.⁸⁹

DABS's ability to operate and maintain new infrastructure has fallen short of USAID's predictions. In one of the necessity and sustainability assessments it completed for Congress, USAID wrote that DABS commercialization activities would “help to assure that DABS has both the financial and human resources to maintain” PTEC infrastructure.⁹⁰ However, the commercialization activities are mostly completed and DABS's capacity remains in doubt, creating a risk that PTEC infrastructure is not sustainable. For instance, USAID officials told us that although insurgents do not actively target power infrastructure for sabotage, stray gunfire often accidentally cuts power lines. This problem has been particularly severe in Ghazni, where a DABS contractor used 150 percent of its spare parts allowance last year to repair damage caused by gunfire, according to one DABS official. USAID officials said DABS technicians are capable of repairing this damage quickly, but DABS still has not developed a mechanism to pre-qualify vendors for recurrent purchases to buy spare parts when needed. This may result in DABS taking additional time to make repairs.

Similarly, while one of USAID's sustainability assessments states that “DABS has become increasingly self-sufficient” and would “have sufficient resources to continue sustaining the entire grid” by the time PTEC concludes, DABS is still far from self-sufficient.⁹¹ Following a sector-wide assessment in February 2018, USAID found that DABS had nearly \$135 million of debt, could not offset losses with 2017 revenues, and expected several more years of operating at a loss. Total transmission and distribution losses remained as high as 35 percent, according to senior Afghan government officials USAID interviewed for the assessment. USAID concluded that although this was an improvement from the estimated 50 percent loss sustained by DABS in 2009, the amount remains more than twice what is considered sustainable for a functioning utility company.⁹²

USAID officials told us that other Afghan government entities, such as Parliament and provincial governors, have set energy prices below market rates, limiting DABS's revenue flows. Additionally, DABS has become increasingly dependent on imported energy, which accounted for 85 percent of its total power purchasing costs in 2015—up from 66 percent of its total costs in 2013.⁹³ Because the imported energy prices are pegged to the U.S. dollar, DABS's ability to buy imported energy weakens when Afghanistan's currency falls in value. For instance, DABS sustained \$41 million in net losses in 2015, primarily because Afghanistan's currency tumbled 20 percent in value against the U.S. dollar that year. The price of imported power currently remains relatively low, but the governments of exporting countries have taken advantage of DABS's weak negotiating position to

⁸⁸ Dynamic Vision, Load Flow Analysis Report, p. 7.

⁸⁹ See Appendix XI for our full technical analysis of these constraints.

⁹⁰ USAID, “NDA sec. 1273 Assessment: Ghazni to Kandahar City Transmission Line Activity,” September 12, 2014, unnumbered eighth page.

⁹¹ USAID, “NDA sec. 1273 Assessment,” unnumbered seventh page.

⁹² USAID/Afghanistan, USAID/Afghanistan Energy Sector Assessment Results, February 7, 2018.

⁹³ Checchi, Mid-Term Performance Evaluation, October 26, 2017, pp. 26-27.

raise tariff rates. For example, a senior Afghan government official confirmed to us that in January 2018, Turkmenistan temporarily cut power to northwest Afghanistan to pressure DABS to double tariff rates, which it did for some customers.

CONCLUSIONS

Two and a half years after PTEC's originally scheduled end date of December 30, 2016, USAID has little to show for the \$292.9 million it has spent on PTEC so far. Its main accomplishments to date have been the construction of approximately 110 km worth of transmission line and two substations southwest of Kabul. USAID stated that this new infrastructure replaced expensive, unsustainable, diesel-generated power, and reduced the cost of power from \$0.57 per kWh to \$0.05 per kWh. These new benefits may have improved the quality of life for the residents in the cities of Ghazni and Sayadabad, though USAID cannot say for certain how many people have increased access to the new power supply. DABS reported that PTEC infrastructure is providing power to approximately 12,000 customers, although this is a small subset of the 295,000 residents in Ghazni and Sayadabad, and well short of the 2.4 million Afghans who USAID originally planned to benefit from PTEC's infrastructure.

The only tangible result of USAID's efforts to commercialize DABS was the installation of two partly functional and inconsistently used software packages, although DABS has yet to install the bulk metering systems that the software packages are intended to support. Consequently, USAID cannot say to what extent the software will improve DABS's profitability and self-sufficiency. USAID could also not show how commercialization activities contributed to achieving PTEC's intended project purpose and goals. This is because the performance indicators in PTEC's M&E plan lacked baselines, targets, and accurate and verified data, as required. Afghan government officials characterized USAID's capacity building efforts as a wasted opportunity, telling us that DABS relied too much on PTEC contractors to do its work, and that local staff did not develop the skills and experience they needed to assume full responsibility for DABS operations once PTEC's commercialization contracts ended.

Meanwhile, PTEC's commercialization component failed to resolve USAID's concerns about DABS's capacity and finances. Even if USAID addresses its oversight and accountability problems and completes PTEC's remaining transmission lines and substations as planned, DABS ability to operate and sustain that infrastructure going forward remains uncertain.

Given the problems that have emerged with DABS's financial management practices, internal controls, and vulnerabilities to corruption, we are concerned that USAID plans to continue giving the utility \$128.8 million in on-budget funding without any apparent expectation of DABS fixing these issues.⁹⁴ USAID/Afghanistan did not develop multi-tiered monitoring plans in accordance with its mission order, did not regularly send U.S. government or third-party monitors to DABS or PTEC activity sites, and concentrated too much oversight responsibility with individual on-budget monitors. If USAID does not update its multi-tiered monitoring plans so that it can compare DABS's reporting against two other independent sources of information, it might not be able to hold DABS accountable for its inaccurate information. By not conditioning future on-budget PTEC funding on DABS making improvements to its systems and processes, USAID might be putting that funding at risk.

Additionally, USAID did not perform necessity and sustainability assessments for seven capital projects funded by PTEC. Therefore, according to the fiscal limitations imposed by Section 1273 of the National Defense Authorization Act for Fiscal Year 2013, more than \$293 million in U.S. taxpayer funds were unlawfully obligated to those seven projects. As a result, USAID/Afghanistan left PTEC funding exposed to risks of waste, fraud, and abuse. Even if USAID had completed the assessments required by Section 1273, the reality of life in Afghanistan today is different than what USAID expected when PTEC funding began in 2011. Kabul's power demand has grown at a precipitous rate, yet plans to build new power plants and transmission lines have either been delayed or abandoned, leaving little spare power for cities farther south. The area between Ghazni and Kandahar has also become a more insecure and dangerous work environment since PTEC began in 2011.

⁹⁴ SIGAR is currently conducting a review of DABS's internal controls.

If conditions do not improve, there may be little benefit for either Afghanistan or the United States spending the \$568.8 million of PTEC's remaining funding to construct the outstanding transmission lines and substations.

RECOMMENDATIONS

To improve USAID's performance measurement, implementation, and oversight of PTEC, we recommend that the USAID Administrator:

1. **Update or implement, as required by USAID/Afghanistan Mission Order 201.05, PTEC multi-tiered monitoring plans to include three separate sources of data for each ongoing activity, or document in the plan why using three tiers is not possible.**
2. **Condition the \$128.8 million in on-budget assistance still obligated to DABS on it addressing USAID's concerns about DABS's internal controls, management of public finances, and vulnerabilities to corruption.**

To better inform Congress of the necessity and sustainability of PTEC's capital projects, we recommend that the USAID Administrator:

3. **Develop and submit to Congress, in compliance with the requirements of Section 1273 of the National Defense Authorization Act for Fiscal Year 2013, necessity and sustainability assessments covering the seven capital projects that USAID has yet to submit, and revise the assessments covering the three projects that did comply but whose analyses may now be out of date.**
4. **Determine whether to de-obligate funds for these capital projects based on the results of the above assessments.**

AGENCY COMMENTS

We provided a draft of this report to USAID for review and comment. USAID/Afghanistan provided written comments, which are reproduced in appendix XII. USAID concurred with two of the five recommendations and did not concur with three of them. USAID also provided technical comments, which we incorporated as appropriate.

In the draft, we recommended that USAID update its monitoring and evaluation plan for PTEC to reflect the most current indicators. In its response to this recommendation, USAID stated that DABS had updated the M&E plan for PTEC. USAID said the revised M&E plan includes the indicators currently in use and baseline data, annual targets, and end-of-project targets for each indicator. USAID gave us a copy of this revised plan, dated July 2019. Therefore, we consider this recommendation implemented and removed it from this report.

USAID did not concur with our first recommendation. USAID stated that under Mission Order 201.05, multi-tiered monitoring plans must utilize all three tiers "unless this is not possible based on the terms of an activity's award documents." USAID further stated that "certain [infrastructure construction] activities within PTEC," would not benefit from monitoring by external sources, such as other donors and the media, because those sources "are unlikely to provide any relevant information on the progress of many of the PTEC's activities." However, USAID's multi-tiered monitoring plan for PTEC's bulk meters activity states that if other donors, such as ADB or the World Bank, are implementing any projects in the same areas, "they will be asked to verify the number of meters installed as well as the quality of installation."⁹⁵ It is unclear why USAID cannot do the same for PTEC infrastructure construction activities, especially considering that ADB has active projects near PTEC infrastructure work sites. It is also unclear why the World Bank's and ADB's inputs would be relevant for PTEC

⁹⁵ USAID/Afghanistan, "Bulk Energy Meters Procurement and Installation Multi-Tier Monitoring Plan," updated April 19, 2018, unnumbered third page.

bulk meters, but not relevant for PTEC infrastructure. Therefore, we consider this recommendation open until USAID updates its multi-tiered monitoring plans to include a third tier, or document in the plan why it is not possible to solicit external feedback about PTEC infrastructure progress and outputs.

USAID did not concur with our second recommendation. USAID gave three explanations for why it will continue funding on-budget contracts with DABS, despite its unresolved concerns about DABS's internal controls, management of public finances, and vulnerabilities to corruption. First, USAID said it has implemented risk mitigation measures, such as requiring all PTEC contracts to be fixed-price for deliverables and hiring an independent quality assurance contractor for PTEC's ongoing projects. Second, USAID stated that it responded to emerging risks by proactively pausing all on-budget assistance, requiring DABS to meet three new requirements before resuming on-budget assistance, and ending on-budget assistance for some PTEC activities. Third, USAID stated that it had to weigh other factors, such as that expanding power infrastructure is "among the highest priorities of the Afghan and U.S. governments," that ongoing projects are between 50 and 70 percent complete, and that "withholding funds...would be counterproductive and create a wasted investment."

Regarding USAID's first explanation, we commend USAID for implementing measures for mitigating the inherent risks of on-budget assistance with DABS. However, as we discuss in our report, some of USAID's risk mitigation measures, such as reviewing and approving DABS invoices, historically have been ineffective in identifying fraud indicators. We also found that, as of the date of this report, USAID had not yet contracted an independent quality assurance contractor to monitor one ongoing activity, the bulk meters contract. Furthermore, it is not enough that USAID is implementing one-sided risk mitigation measures; it must also hold DABS accountable for meeting the terms agreed to by USAID and DABS in their implementation letters. ADS 220.3.3.5 states that when there is clear evidence of institutional vulnerabilities to corruption with an implementing partner, missions should refrain from using on-budget assistance unless the implementing partner demonstrates "energetic enforcement or corrective actions" in compliance with its implementation letters with USAID.⁹⁶

Regarding USAID's second explanation, we commend its decision to end \$399.5 million in on-budget assistance to DABS following the emergence of credible allegations of corruption. Although it is encouraging that USAID required DABS to meet three new conditions before USAID would re-authorize the remaining \$128.8 million in on-budget assistance, we note that all three conditions simply required DABS to submit new schedules and plans. Schedules and plans are only useful if implemented. As we state in this report, DABS did not implement at least four of the nine plans it previously produced in response to USAID's past requirements, and USAID has not held DABS accountable for failing to implement those plans. USAID's explanation actually demonstrates that (1) USAID is willing to enforce conditions for the continued provision of on-budget assistance, and (2) DABS responds to and is willing to action on USAID's enforcement of agreed upon conditions. Our recommendation is intended to result in focused, meaningful improvement at DABS by using a conditions-based approach to continued assistance that USAID and DABS have shown to be successful in the past.

Regarding USAID's third explanation, we agree that expanding power infrastructure is among the highest of priorities for both the U.S. and Afghan governments. However, this is not a sufficient reason to continue construction through on-budget mechanisms when USAID has the option of completing these activities off-budget. We understand USAID's desire not to waste the \$99.5 million it has already invested into ongoing construction. However, we contend that withholding funds from DABS until it makes improvements does not create new waste, but could prevent the remaining \$128.8 million of PTEC's on-budget funding from going to waste. Therefore, we consider this recommendation open until USAID conditions its on-budget assistance on DABS addressing USAID's concerns about its internal controls, management of public finances, and vulnerabilities to corruption.

USAID concurred with our third recommendation and stated it did not prepare assessments for seven activities, as required by Section 1273 of the National Defense Authorization Act for Fiscal Year 2013. USAID stated that it has already initiated actions to correct this mistake, including collecting assessment data and drafting preliminary reports. USAID anticipates filing the seven missing assessments and any updates to the

⁹⁶ ADS 220.3.3.5(p), partially revised November 27, 2018, p. 37.

assessments already completed by March 31, 2020. Therefore, this recommendation will remain open until we receive evidence that USAID has provided these assessments and updates to Congress.

USAID did not concur with our fourth recommendation. USAID pointed out that it completed an assessment in accordance with Section 611(e) of the Foreign Assistance Act—another legal requirement, though USAID does not have to submit the results to Congress—in 2010, and said this assessment found that the Afghan government can use and maintain each PTEC infrastructure project effectively. However, we note that USAID’s 611(e) assessment also concluded that the Afghan government’s “capability to maintain the energy systems is limited, due to the lack of resources and technical and institutional capacity.”⁹⁷ The assessment stated that PTEC’s capacity building efforts would “enable DABS to raise sufficient revenues to pay wholesale electricity import costs and maintain the improved infrastructure” and “build the capacity of [the Afghan government] to efficiently maintain the energy infrastructure.”⁹⁸ Importantly, the 611(e) assessment ends by noting, “if during the provision of assistance, it becomes apparent that Afghanistan will not have the capacity to operate and maintain the energy systems, assistance will be discontinued until appropriate measures are taken to satisfy the requirements of this certification.”⁹⁹

We found that PTEC’s capacity building component ended without meeting key objectives, and as a result, DABS continues to lack the capability, in both financial and human resources, to operate and sustain PTEC’s infrastructure. In February 2018, USAID found that DABS had nearly \$135 million in debt, did not turn a profit in 2017, and expected to operate at a loss for several more years. Furthermore, DABS’s transmission and distribution losses remain as high as 35 percent, which is twice the amount of losses USAID considers sustainable. Therefore, the conclusions in USAID’s 2010 611(e) assessment are no longer applicable, and USAID should consider discontinuing assistance—or using a conditions-based assistance approach, as called for in our third recommendation—until DABS demonstrates that it can be a sustainable enterprise with the capability to operate and maintain PTEC infrastructure. This recommendation will remain open until we receive a determination from USAID as to whether it will de-obligate funds for PTEC capital projects based on the new or revised Section 1273 assessments.

⁹⁷ USAID, “Rehabilitation of Southeast Power System (SEPS), Northeast Power System (NEPS), and Kajaki Hydro Power Plant (HPP): 611(e) Certification of Principal USAID Officer in Afghanistan,” May 17, 2010, pp. 5-6.

⁹⁸ USAID, “Rehabilitation of...,” p. 6.

⁹⁹ USAID, “Rehabilitation of...,” p. 7.

APPENDIX I - SCOPE AND METHODOLOGY

This report provides the results of SIGAR’s audit of the U.S. Agency for International Development’s (USAID) Power Transmission Expansion and Connectivity (PTEC) project from its inception in August 2011 through March 2019. The objectives were to assess the extent to which USAID (1) ensured that DABS achieved USAID’s intended deliverables for PTEC—such as transmission lines and substations built, and hardware and software installed—and met those deliverables on schedule; (2) measured PTEC’s progress in meeting USAID’s intended project purpose and goals; (3) provided oversight and accountability for the Afghan government’s commitments to USAID and implementation of PTEC activities; and (4) assessed whether PTEC infrastructure would be necessary and sustainable.

To determine the extent to which USAID ensured that DABS achieved USAID’s intended deliverables for PTEC and met those deliverables on schedule, we reviewed USAID’s project appraisal document for PTEC and amendments to this document, implementation letters and amendments to these letters, USAID memoranda, USAID’s PTEC-related contracts and their amendments, and Da Afghanistan Breshna Sherkat’s (DABS) PTEC-related contracts and their amendments. We analyzed these documents to determine the universe of PTEC activities, each contract’s award date, period of performance, and obligation value, as well as the time elapsed between the date USAID authorized a contract and the date DABS awarded it. We compared the completion or estimated completion dates reported in these documents against the originally scheduled completion dates in USAID’s project appraisal document and in DABS’s contracts. Additionally, we reviewed and analyzed assessments and progress reports written by DABS and USAID’s third-party monitors to determine the statuses of each activity, the extent to which PTEC activities met USAID’s intended deliverables, and the issues that contributed to any schedule delays.

To determine the extent to which USAID measured PTEC’s progress in meeting its intended project purpose and goals, we reviewed USAID’s Automated Directives System (ADS) 201 and 220 and the USAID Mission for Afghanistan’s (USAID/Afghanistan) Mission Orders 203.04 and 220.03 to identify the agency’s requirements for measuring performance.¹⁰⁰ We studied PTEC’s monitoring and evaluation (M&E) plan and amendments, and indicator data as of September 30, 2018, to determine whether USAID set baselines, annual targets, and end-of-project targets for each indicator. We also downloaded and analyzed indicator data from USAID’s Afghan Info database, the M&E plan, and USAID to understand how USAID and its partners collected performance data over time and whether PTEC met its targets.¹⁰¹ Additionally, we requested and reviewed Tetra Tech Inc. (Tetra Tech) and Checchi & Company Consulting Inc. (Checchi) reports and assessments discussing PTEC data reliability.

To determine the extent to which USAID provided oversight and accountability for the Afghan government’s commitments to USAID and implementation of PTEC activities, we reviewed ADS 201 and 220, and USAID/Afghanistan Mission Order 203.04 and 220.03 to identify oversight and conflict-of-interest requirements. To establish whether USAID evaluated DABS to be capable of managing on-budget funds, both before initiating assistance and then afterward on an ongoing basis, we reviewed USAID’s risk assessment of DABS and updates to that assessment, implementation letters, the improvement plans DABS submitted to USAID, as required, and Checchi’s mid-term evaluation of DABS’s progress in implementing those plans. We analyzed these documents to determine areas of weaknesses within DABS, the extent to which DABS addressed these weaknesses, and the extent to which USAID monitored DABS’s progress and held it accountable.

To determine if USAID complied with oversight requirements, we requested from USAID the multi-tiered monitoring plans or applicable waivers for each of DABS’s contracts. First, we searched each DABS contract for its multi-tiered monitoring plan or a waiver, as required, and then we analyzed to what extent each plan adhered

¹⁰⁰ USAID, ADS 201, “Program Cycle Operational Policy,” partially revised October 29, 2018. USAID, ADS 220, “Use and Strengthening of Reliable Partner Government Systems for Implementation of Direct Assistance,” partially revised November 27, 2018. USAID/Afghanistan, Mission Order 203.04, “Mission Order on Performance Monitoring,” March 29, 2016. USAID/Afghanistan, Mission Order 220.03, “Implementation of Bilateral On-Budget Assistance Projects,” March 24, 2015.

¹⁰¹ Afghan Info is a web-based tool designed to track information about USAID/Afghanistan’s programs.

to USAID/Afghanistan guidance. Second, we reviewed the tasks assigned under PTEC contracts to determine if any conflicts of interest existed. Lastly, we evaluated USAID memoranda and meeting minutes to determine why USAID is still providing on-budget assistance to DABS despite concerns about DABS's vulnerabilities to corruption.

To determine the extent to which USAID assessed whether PTEC infrastructure would be necessary and sustainable, we reviewed Section 1273 of the National Defense Authorization Act for Fiscal Year 2013, which required USAID to perform an analysis of the necessity and sustainability of PTEC capital projects.¹⁰² We analyzed PTEC activities to determine which ones fit the statutory definition of a "capital project," and requested that USAID give us the necessity and sustainability assessment for each PTEC capital project.¹⁰³ We then determined to what extent these necessity and sustainability assessments included the elements required by law. We also reviewed sustainability discussions in a 2018 joint USAID and Asian Development Bank (ADB) load flow study of Afghanistan's electrical infrastructure and USAID internal memoranda.

For all of our objectives, we interviewed current and former USAID agency officials responsible for designing, overseeing, implementing, and evaluating PTEC. We interviewed officials from USAID's Office of Afghanistan and Pakistan Affairs, Office of Inspector General, and the USAID/Afghanistan Mission Director, Office of Infrastructure, and Office of Program and Project Development. We interviewed officials from DABS's Project Implementation Unit, procurement department, and M&E department, and from the Afghan National Procurement Authority and the Afghan Ministry of Finance. Additionally, we interviewed officials from ADB, Tetra Tech, and Checchi.

We assessed internal controls to determine the extent to which USAID had systems in place to oversee and evaluate PTEC in accordance with its agency guidance. The results of our assessment are included in the body of this report.

We used some computer-processed data from USAID to assess whether PTEC is meeting its targets. USAID gave us a spreadsheet of indicator data, which included indicator baselines, end-of-project targets, annual targets, and actual annual results. We reviewed Afghan Info and progress reports that contained indicator performance data to confirm the spreadsheets' accuracy and completeness. We determined that the data in the spreadsheet were sufficiently reliable for the purposes of this report.

We conducted our audit work in Kabul, Afghanistan, and Washington, DC, from July 2018 to July 2019, 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. The Office of Special Inspector General for Afghanistan Reconstruction conducted the audit under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended.

¹⁰² National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, § 1273 (codified as amended at 22 U.S.C. § 2421f).

¹⁰³ According to 22 U.S.C. § 2421e, a "capital project" is defined as "a project involving the construction, expansion, alteration of, or the acquisition of equipment for, a physical facility or physical infrastructure, including related engineering design (concept and detail) and other services, the procurement of equipment (including any related services), and feasibility studies or similar engineering and economic services."

APPENDIX II - SUMMARY OF THE POWER TRANSMISSION EXPANSION AND CONNECTIVITY PROJECT'S INFRASTRUCTURE CONSTRUCTION ACTIVITIES AND ASSOCIATED CONTRACTS

Table 2 summarizes the Power Transmission Expansion and Connectivity (PTEC) project's infrastructure construction activities and their associated contracts. Da Afghanistan Breshna Sherkat (DABS) awarded and managed all of the contracts using funding from the U.S. Agency for International Development (USAID).

Table 2 - Summary of PTEC Infrastructure Construction Activities and Associated Contracts

Activity	Contract Award Date	Contract Period of Performance	Contract Obligation Value	Status
Construction management support for DABS	Mar. 26, 2014	Mar. 26, 2014– July 1, 2015	\$18,823,972	Terminated
220 kV transmission line between Arghandi and Ghazni	Mar. 26, 2014	July 1, 2014– Aug. 31, 2017	\$59,237,440	Complete
220 kV substations at Sayadabad and Ghazni	Mar. 26, 2014	July 1, 2014– Aug. 31, 2017	\$47,725,355	Complete
220 kV substation and 20 kV network at the Salang Tunnel	Sept. 28, 2016	April 18, 2017– Sept. 18, 2019	\$20,369,720	Ongoing
220 kV transmission line between Ghazni and Kandahar	Feb. 26, 2017	Aug. 1, 2017– Dec. 31, 2019	\$113,180,018	Ongoing
220 kV substations at Kandahar, Qalat, Shahjoy, Moqor, and Qarabagh		Under Solicitation (Off-Budget)		
Southeast Electrical Power System (SEPS) Completion		Under Solicitation (Off-Budget)		

Source: PTEC solicitations, contracts, and amendments

APPENDIX III - DIFFERENCES BETWEEN INFRASTRUCTURE CONSTRUCTION ACTIVITIES' ORIGINALLY SCHEDULED COMPLETION DATES AND ACTUAL OR ESTIMATED COMPLETION DATES

Table 3 shows the differences between the U.S. Agency for International Development's (USAID) originally scheduled completion dates, Da Afghanistan Breshna Sherkat's (DABS) originally scheduled completion dates, and the actual (for completed contracts) or estimated (for ongoing contracts) completion dates for each Power Transmission Expansion and Connectivity (PTEC) infrastructure construction activity as of January 30, 2019.

Table 3 - Differences Between USAID's and DABS's Originally Scheduled Completion Dates and Actual or Estimated Completion Dates for PTEC Infrastructure Construction Activities

Activity	USAID's Originally Scheduled Completion Date	DABS's Originally Scheduled Completion Date	Actual Completion Date	Difference Between USAID's Original and Actual Date	Difference Between DABS's Original and Actual Date
220 kV transmission line between Arghandi and Ghazni	Dec. 30, 2016	Dec. 31, 2016	Aug. 31, 2017 ^a	244 days ^a	243 days ^a
220 kV substations at Sayadabad and Ghazni	Dec. 30, 2016	Dec. 31, 2016	Aug. 31, 2017 ^a	244 days ^a	243 days ^a
220 kV substation and 20 kV network at Salang Tunnel	Dec. 30, 2016	Sept. 18, 2019	Apr. 12, 2020 (est.)	3 yrs, 104 days (est.)	207 days (est.)
220 kV transmission line between Ghazni and Kandahar	Dec. 30, 2016	Jan. 1, 2020	Aug. 31, 2020 (est.)	3 yrs, 245 days (est.)	243 days (est.)
220 kV substations at Kandahar, Qalat, Shahjoy, Moqor, and Qarabagh	Dec. 30, 2016	N/A ^b	Jul. 31, 2021 (est.)	4 yrs, 214 days (est.)	N/A ^b

Source: PTEC implementation letters and contracts, Tetra Tech Inc. reports, and SIGAR interviews with USAID officials

^a DABS's contract for these two activities formally concluded on August 31, 2017. However, the contractor continued to do work at no additional cost, and DABS did not sign completion certifications for the transmission line and substations until May 22, 2018, and September 23, 2018, respectively.

^b USAID revoked its consent for this contract on July 27, 2017, before DABS could award it, citing alleged improprieties in the procurement process. USAID officials told us they intend to complete these substations themselves using off-budget contracts.

APPENDIX IV - SUMMARY OF THE POWER TRANSMISSION EXPANSION AND CONNECTIVITY PROJECT'S COMMERCIALIZATION ACTIVITIES AND ASSOCIATED CONTRACTS

Table 4 summarizes the Power Transmission Expansion and Connectivity (PTEC) project's commercialization activities and their associated contracts. Da Afghanistan Breshna Sherkat (DABS) awarded and managed all of the contracts using funding from the U.S. Agency for International Development (USAID).

Table 4 - Summary of PTEC's Commercialization Activities and Associated Contracts

Activity	Contract Award Date	Contract Period of Performance	Contract Obligation Value	Status
Capacity building and technical assistance to improve DABS financial and corporate management	Dec. 23, 2013	Mar. 1, 2014– Oct. 15, 2017	\$20,756,099	Complete
Capacity building and technical assistance to improve distribution of power by installing mPower software, instituting revenue protection programs, and installing bulk meters	Mar. 12, 2014	Mar. 12, 2014– Mar. 12, 2017	\$9,976,714	Complete
Capacity building and technical assistance to help DABS maintain generation and transmission assets	Jun. 23, 2014	Jun. 23, 2014– Jun. 23, 2017	\$27,465,095	Complete
Management support for Kandahar Operating Center	Aug. 31, 2014	Aug. 31, 2014– Feb. 10, 2015	\$27,500,000	Terminated
Independent verification of assets and liabilities assumed by DABS	Jun. 10, 2015	Jun. 10, 2015– Feb. 28, 2017	\$2,105,849	Complete
Procurement and installation of bulk meters	May 31, 2017	Aug. 15, 2017– Jul. 15, 2019	\$6,997,345	Ongoing
Procurement of bulk meter testing equipment	May 31, 2017	Jun. 24, 2017– Sept. 24, 2017	\$522,200	Complete

Source: PTEC contracts and amendments

APPENDIX V - SUMMARY OF THE POWER TRANSMISSION EXPANSION AND CONNECTIVITY PROJECT'S CLEAN ENERGY ACTIVITIES AND ASSOCIATED CONTRACTS

Table 5 summarizes the Power Transmission Expansion and Connectivity (PTEC) project's clean energy activities and associated contracts. The U.S. Agency for International Development (USAID) awarded and managed all of the contracts using off-budget contracts.

Table 5 - Summary of PTEC's Clean Energy Activities and Associated Contracts

Activity	Contract Award Date	Contract Period of Performance	Contract Obligation Value	Status
Public awareness campaign ^a	Jan. 29, 2014	Feb. 1, 2014– Jan. 31, 2016	\$1,756,905	Complete
Kandahar solar power plant	Feb. 23, 2017	Feb. 23, 2017– Aug. 26, 2019	\$10,000,000	Ongoing
Energy media campaign	May 22, 2018	May 2018– Oct. 2018	\$63,524	Complete
Executive utility exchanges ^b	Unknown	Sept. 30, 2007– Sept. 30, 2017	\$689,555	Complete

Source: PTEC contracts and amendments, progress reports, and USAID statements

^a USAID gave us the contract for this activity, but not a final report. As a result, we based the end of the period of performance and status on USAID's testimonial statements.

^b USAID did not give us the contract or final report for this activity. As a result, we based the end of the period of performance, obligation value, and completion status on USAID's testimonial statements.

APPENDIX VI - SUMMARY OF THE POWER TRANSMISSION EXPANSION AND CONNECTIVITY PROJECT'S INDICATORS

Table 6 summarizes the performance indicators set by Da Afghanistan Breshna Sherkat (DABS) in its monitoring and evaluation (M&E) plan for the Power Transmission Expansion and Connectivity (PTEC) project. The table contains information from DABS's original M&E plan, approved by the U.S. Agency for International Development (USAID) in July 2015, and DABS's revised M&E plan, approved by USAID in July 2016.

Table 6 - Summary of PTEC Indicators

Indicator Description	Indicator Type	Indicator Included in 2015 M&E Plan	Indicator Included in 2016 M&E Plan	Indicator Being Used
Percent of power line transmission lines completed/upgraded as a result of U.S. government assistance	Output ^a	✓	✓	✓
Percent of substations completed/upgraded as a result of U.S. government assistance	Output ^a	✓	✓	✓
Annual electricity produced or purchased in MWh by the national electric utility	Output ^a	✓	✓	✓
Number of days of U.S. government funded technical assistance in technical energy fields provided to counterparts or stakeholders	Output ^a	✓	✓	
DABS-collected revenue as a percentage of total costs	Output	✓	✓	
Number of policy reforms, laws, regulations, and administrative procedures drafted and presented for public-stakeholder consultation to enhance sector governance and/or facilitate private sector participation and competitive markets as a result of U.S. government assistance	Output	✓		
Number of MWh supplied to customers	Outcome	✓	✓	✓
Revenue loss reduction (aggregate technical and commercial loss ratio improvement)	Outcome	✓	✓	✓
Number of beneficiaries with improved energy services due to U.S. government assistance	Outcome	✓	✓	✓
Weighted average cost of electric energy supplied to the grid	Outcome	✓	✓	
Number of on-budget procurement actions completed by the Afghan government with U.S. government assistance	Outcome	✓	✓	
Number of new residential, commercial and government connections achieved with U.S. government assistance	Outcome	✓		
Number of people employed through U.S. government assistance in infrastructure activities	Outcome	✓		
Greenhouse gas emission estimated in metric tons of carbon dioxide reduced, sequestered, and/or avoided as a result of U.S. government assistance	Outcome	✓		

Source: PTEC M&E plans for fiscal years 2015 and 2016, and SIGAR interviews with USAID and DABS officials

^a DABS identified these indicators as "outcome" indicators in its 2015 plan, and as "output" indicators in its 2016 plan.

APPENDIX VII - THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT'S CONDITIONS PRECEDENT FOR DA AFGHANISTAN BRESHNA SHERKAT AND THE MINISTRY OF FINANCE TO COMPLETE BEFORE RECEIVING ON-BUDGET FUNDS

On January 9, 2013, the U.S. Agency for International Development (USAID) required Da Afghanistan Breshna Sherkat (DABS) to implement 11 conditions precedent before USAID would disburse funding for Power Transmission Expansion and Connectivity (PTEC) activities. Of these, 9 conditions precedent required DABS to submit an improvement plan to USAID. USAID also required 1 additional condition precedent of the Afghan Ministry of Finance, bringing the total to 12.

These 12 conditions precedent were as follows:

1. Submit a monitoring and evaluation plan.
2. Provide complete and externally audited financial statements for fiscal years 2010 and 2011.
3. Submit a plan to implement improved financial management practices.
4. Establish a special dollar account for PTEC and provide its routing number, user name, and password to USAID (Ministry of Finance).
5. Submit a plan to implement an asset register and improve asset management practices.
6. Submit a plan to improve internal audit practices.
7. Submit a plan to improve business planning practices.
8. Submit a plan to improve procurement practices, including:
 - a. establishing a procurement committee;
 - b. developing a procurement plan;
 - c. developing a mechanism to pre-qualify vendors for recurrent purchases;
 - d. obtaining a signed conflict of interest declaration for individuals involved in the procurement processes; and
 - e. involving the legal department in all procurement processes.
9. Submit a plan to ensure improved commercial metering, billing, and collections practices.
10. Submit a plan to improve information technology practices, including developing business continuity and disaster recovery plans.
11. Submit a plan to improve human resource management practices.
12. Contract assistance of internationally qualified and experienced experts through a period of at least September 30, 2013, to address ongoing issues at Tarakhil Power Plant.¹⁰⁴

¹⁰⁴ Tarakhil Power Plant is a diesel-fired power plant located east of Kabul.

APPENDIX VIII - DA AFGHANISTAN BRESHNA SHERKAT'S INTERNAL CONTROLS WEAKNESSES AS OF AUGUST 22, 2011, AND FEBRUARY 14, 2013

Automated Directives System guidance requires the U.S. Agency for International Development (USAID) to perform a public financial management risk and internal controls assessment prior to disbursing on-budget funding to an implementing partner. USAID contracted Ernst & Young to perform one such assessment before disbursing funding to Da Afghanistan Breshna Sherkat (DABS). On August 22, 2011, Ernst & Young submitted the report summarizing the results of its assessment. It identified 49 weaknesses: 34 were rated high risk, needing the immediate attention of DABS senior leadership; 14 were rated as medium risk, needing an agreed action plan for prompt resolution; and 1 was rated as low risk, needing an action plan for resolution. Table 7 summarizes the identified weaknesses by risk level.

Table 7 - DABS Internal Controls Weaknesses Identified by Ernst & Young on August 22, 2011

Area Under Review	Overall Rating	Total Weaknesses	Risk Level		
			High	Medium	Low
Governance structure and control environment	Improve (Critical)	15	10	5	0
Financial management, budgeting, and accounting systems	Improve (Critical)	10	8	2	0
Personnel policies and procedures	Improve (Critical)	12	6	5	1
Procurement and purchasing systems	Improve (Critical)	7	5	2	0
Program management and monitoring	Improve (Critical)	5	5	0	0
Totals		49	34	14	1

Source: Ernst & Young, *Report on Pre Award Assessment, Da Afghanistan Breshna Sherkat (DABS)*, August 22, 2011.

Ernst & Young performed a follow-up assessment on February 14, 2013. This assessment concluded that of the 49 previously identified weaknesses, DABS had fully addressed 32 weaknesses, partially addressed 15 weaknesses, and had not addressed 2 weaknesses. The assessment also identified 9 new weaknesses. Table 8 summarizes Ernst & Young's updated findings.

Table 8 - Status of DABS Internal Controls Weaknesses as of February 14, 2013

Area Under Review	Overall Rating	Status of Weaknesses Identified in August 22, 2011, Report			New Weaknesses Identified
		Addressed	Partially Addressed	Not Addressed	
Governance structure and control environment	Medium	11	4	0	0
Financial management, budgeting, and accounting systems	Medium	3	7	0	6
Personnel policies and procedures	Medium	9	3	0	2
Procurement and purchasing systems	Medium	5	1	1	0
Program management and monitoring	Medium	4	0	1	1
Totals		32	15	2	9

Source: Ernst & Young, *Report on Assessment, Da Afghanistan Breshna Sherkat (DABS)*, February 14, 2013.

APPENDIX IX - THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT CREATED MULTI-TIERED MONITORING PLANS FOR 9 OF 12 ON-BUDGET CONTRACTS

Starting in March 2016, the U.S. Agency for International Development (USAID) Mission for Afghanistan's (USAID/Afghanistan) Mission Order 203.04 required USAID to use a multi-tiered monitoring approach for programming activities in Afghanistan due to USAID/Afghanistan's limited ability to oversee its contractors' implementing activities. The multi-tiered monitoring approach was to use at least three of these five "tiers" when monitoring contracts to ensure effective oversight:

- Tier 1—direct U.S. government observation
- Tier 2—contractor reporting
- Tier 3—information from the Afghan government and international donors
- Tier 4—information from civil society organizations and program beneficiaries
- Tier 5—third-party monitor reporting

In September 2017, USAID/Afghanistan updated its multi-tiered monitoring approach with Mission Order 201.05, which required it to use each of the following three tiers when monitoring contracts:

- Tier 1—direct U.S. government observation and/or third-party monitor reporting
- Tier 2—contractor reporting
- Tier 3—information from the Afghan government, international donors, civil society organizations, program beneficiaries, the media, local organizations, and/or external evaluations or assessments

USAID/Afghanistan was required to develop a multi-tiered monitoring plan for each programming activity based on the multi-tiered monitoring approach. Mission Orders 203.04 and 201.05 stated that if it is not possible to have oversight from at least three tiers "based on the terms of an activity's obligating documents," then the multi-tiered monitoring plan should include a justification for using fewer tiers.¹⁰⁵

Table 9 on the following page summarizes our analysis of the ten USAID's multi-tiered monitoring plans for all of the Power Transmission Expansion and Connectivity (PTEC) on-budget contracts that were subject to Mission Order 203.04 and 201.05. For contracts that did not have a multi-tiered monitoring plan, we summarize the justifications USAID provided in exception memoranda or other documents.

¹⁰⁵ Mission Order 201.05, "Mission Order on Performance Monitoring," September 20, 2017 p.7.

Table 9 - Summary of USAID’s Multi-Tiered Monitoring Plans for On-Budget Contracts

Contract Description	Multi-Tiered Monitoring Plan?	Tiers Used	Reason Fewer Than Three Tiers Were Used
220 kV transmission line between Arghandi and Ghazni ^a	✓	1, 2, 5	
220 kV substations at Sayadabad and Ghazni ^a	✓	1, 2, 5	
220 kV transmission line between Ghazni and Kandahar	✓	1, 2 ^b	USAID’s multi-tiered monitoring plan for this activity states that “the nature of the award, and terms of the obligating document between USAID and DABS require Tier 1 and 2 to monitor activities. Therefore monitoring data collected from these two tiers will not be corroborated using external sources.”
220 kV substation and 20 kV network at the Salang Tunnel	✓	1, 2 ^b	USAID’s multi-tiered monitoring plan for this activity states that “the nature of the award, and terms of the obligating document between USAID and DABS require Tier 1 and 2 to monitor activities. Therefore monitoring data collected from these two tiers will not be corroborated using external sources.”
Independent verification of assets and liabilities assumed by DABS	✓	1, 2, 4	
Capacity building and technical assistance to improve distribution of power by installing mPower software, instituting revenue protection programs, and installing bulk meters ^c	✓	1, 2, 4	An exception memorandum states that USAID would monitor contract this under the “capacity building and technical assistance to improve DABS financial and corporate management” contract.
Capacity building and technical assistance to improve DABS financial and corporate management ^c	✓	1, 2, 4	
Procurement and installation of bulk meters	✓	1, 2, 3 ^b	
Procurement of bulk meter testing equipment			USAID/Afghanistan documented a memorandum that exempted this contract from multi-tiered monitoring.
Capacity building and technical assistance to help DABS maintain generation and transmission assets	✓	1, 2, 4	

Source: SIGAR analysis of PTEC multi-tiered monitoring plans

^a These two contracts appear to share the same multi-tiered monitoring plan.

^b USAID/Afghanistan developed these multi-tiered monitoring plans after it issued Mission Order 201.05.

^c These two contracts share the same multi-tiered monitoring plan.

APPENDIX X - SECTION 1273 ASSESSMENTS FOR POWER TRANSMISSION EXPANSION AND CONNECTIVITY PROJECT-FUNDED CAPITAL PROJECTS

Section 1273 of the National Defense Authorization Act for Fiscal Year 2013 requires the U.S. Agency for International Development (USAID) to perform an “assessment on the necessity and sustainability” of any capital project in Afghanistan to which more than \$5 million in USAID funding is obligated or expended.¹⁰⁶ This requirement applied to all 10 capital projects funded by the Power Transmission Expansion and Connectivity (PTEC). As Table 10 shows, USAID did not complete necessity and sustainability assessments for 7 of the capital projects that either it or the Asian Development Bank (ADB) authorized Da Afghanistan Breshna Sherkat (DABS) to execute.

Table 10 - Summary of Section 1273 Assessments for PTEC-funded Capital Projects

Project	Contract Value	Date USAID or ADB Authorized DABS to Solicit Contract	Date Section 1273 Assessment Was Completed
220 kV transmission line between Arghandi and Ghazni	\$59,237,440	Mar. 31, 2013	No assessment
220 kV substations at Sayadabad and Ghazni	\$47,730,355	Mar. 31, 2013	No assessment
500 kV transmission line between Pul-e Khumri and Arghandi	\$118,130,549 ^a	Dec. 14, 2013	No assessment
500/220 kV substation at Arghandi	\$31,000,000 ^a	Dec. 14, 2013	No assessment
220 kV substation and 20 kV network at Salang Tunnel	\$20,369,720	Dec. 16, 2014	No assessment
220 kV transmission line between Ghazni and Kandahar	\$113,180,018	Jan. 29, 2015	Sept. 12, 2014
220 kV substations at Kandahar, Qalat, Shahjoy, Moqor, and Qarabagh	\$201,819,982 ^b	Jan. 29, 2015 ^c	Sept. 12, 2014
Southeast Electrical Power System Completion	\$65,000,000 ^b	Mar. 24, 2016 ^c	Nov. 19, 2013; updated Sept. 12, 2015 ^e
Procurement and installation of bulk meters	\$6,997,345	Aug. 11, 2016	No assessment
Kandahar Solar Power Plant	\$10,000,000 ^d	N/A ^d	No assessment

Source: SIGAR analysis of PTEC implementation letters and contracts, ADB’s North-South Power Transmission Enhancement Project grant and project documents, and USAID’s Section 1273 assessments.

^a PTEC money funded \$104.8 million of these two contracts. ADB and the Japanese government funded the remaining \$44.2 million.

^b The contracts for these projects are currently under solicitation, so the total contract value is an estimate.

^c USAID later revoked its consent to have DABS award these contracts; USAID now intends to award the contracts itself off-budget.

^d USAID awarded the contract for the Kandahar Solar Power Plant off-budget on February 23, 2017. USAID will only reimburse the contractor for up to \$10 million in costs, but the project may cost more than that.

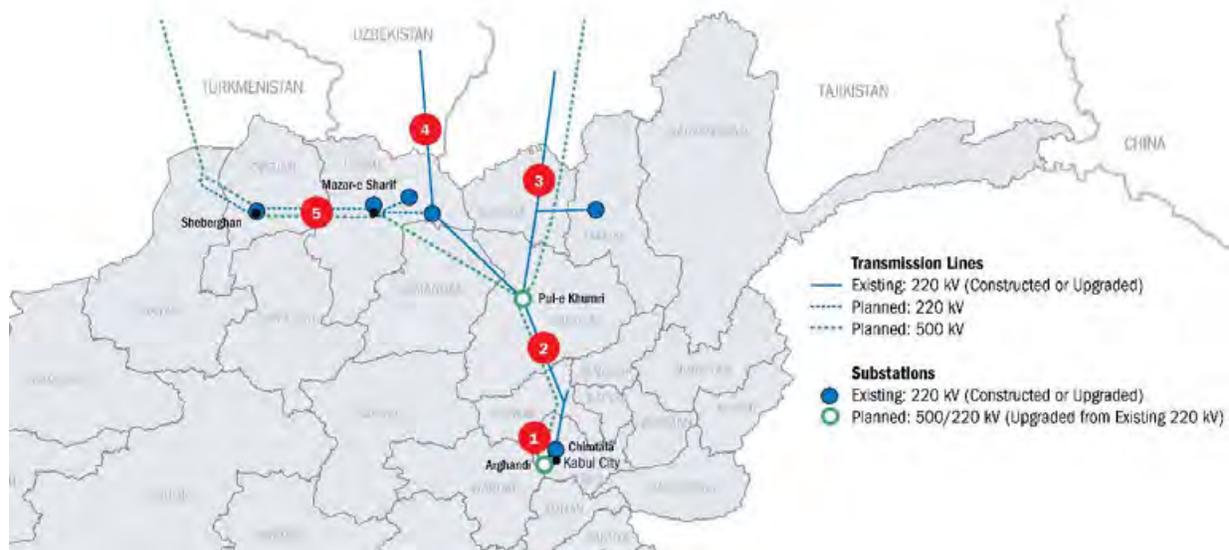
^e DOD completed the section 1273 assessments for SEPS Completion.

¹⁰⁶ National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112–239, §1273.

APPENDIX XI - TECHNICAL CONSTRAINTS ON DA AFGHANISTAN BRESHNA SHERKAT'S ABILITY TO IMPORT POWER TO KABUL AND KANDAHAR

This appendix provides SIGAR's technical analysis of the five constraints that limit Da Afghanistan Breshna Sherkat's (DABS) ability to import power from sources north of Kabul. If one or more of these constraints are not resolved, DABS will not be able to supply Kabul with the more than 250 MW of additional electricity Kabul will need to meet its minimum demand requirements by 2021. If Kabul's demands are not met, it is unlikely that DABS will divert power to Kandahar through the U.S. Agency for International Development's (USAID) Power Transmission Expansion and Connectivity (PTEC) transmission lines. Figure 3 shows the existing and planned transmission lines and substations intended to supply imported power to Kabul, and the five constraints that affect the city's power supply.

Figure 3 - Locations of Five Constraints That Might Affect Kabul's Supply of Electricity



Source: SIGAR analysis of Afghanistan's sources of power.

The first of the five constraints on DABS's ability to import power is that there is only one double-circuit 220 kV transmission line over the Salang Pass (see number 2 on figure 3). This transmission line has a theoretical carrying capacity of 400 MW, though USAID officials told us it is operating at a true carrying capacity of closer to 337 MW after accounting for technical losses. Second, the Salang Tunnel transmission line connects to Kabul's Chimtala substation, which is also operating at capacity, according to USAID officials (see number 1 on figure 3). Therefore, to supply additional power to Kabul and beyond, DABS would need to complete its planned 500 kV transmission line between Kabul and Pul-e Khumri, and complete its upgrades to the Arghandi substation so that DABS can "step down" the 500 kV electricity and transport it over 220 kV lines.¹⁰⁷ The Asian Development Bank (ADB), which is financing these activities, expected DABS to finish constructing the substation by June 2019 and the transmission line no earlier than 2021.

¹⁰⁷ Higher voltage transmission lines send electric power over long distances, while lower voltage lines send electric power to end-users. To transition electric power from a higher voltage line to a lower voltage line or vice versa, the voltage must be "stepped down" or "stepped up," respectively, at a substation.

Third and fourth, even if DABS improve transmission capacity across the Salang Pass, it will only be able to import a limited amount of additional power from its two main sources of supply: Tajikistan and Uzbekistan (see numbers 3 and 4 on figure 3, respectively). Afghanistan has a separate 220 kV line going into each country, and each line has a transmitting capacity of 400 MW. However, only Uzbekistan's line operates year-round because Tajikistan's hydroelectric dams are the source of its exported power and they produce limited amounts of power in the winter. Furthermore, DABS can import energy from only one country at a time because the two countries operate at different phase angles.¹⁰⁸ USAID officials told us that these challenges could be resolved easily from a technical perspective, but Uzbekistan and Tajikistan purposefully keep their phase angles out of sync for political reasons. Therefore, Afghanistan will remain limited to importing 400 MW from either Tajikistan or Uzbekistan, and will not be able to import from both simultaneously unless the two countries agree to standardize their phase angles. Even then, Tajikistan's power would still be available only during warm months.

Fifth, imports from Turkmenistan and a planned power plant in Sheberghan, Afghanistan, could be additional sources of power. However, once the Sheberghan power plant is built, Afghanistan's northern provinces will likely consume any power it adds to the grid, leaving none for Kabul and southern Afghanistan. Furthermore, there is no transmission line connecting Pul-e Khumri to Sheberghan and then to Turkmenistan (see number 5 on figure 3). ADB is financing the construction of two such lines, one at 220 kV and another at 500 kV, but a March 2018 joint USAID and ADB load flow study stated there is a high probability that DABS will not complete the lines by January 2021. USAID officials told us that because the transmission lines will be 200 km long, ADB's schedule is aggressive and does not leave room for error. They agreed that it is likely that ADB's project will not be complete by January 2021.

Even if DABS eliminated these five constraints on Kabul's electrical supply, the utility would encounter other issues when the 220 kV power arrives in Kandahar and needs to be "stepped down" to 110 kV. According to the March 2018 load flow study, there are "multiple system reliability problems in SEPS [Southeast Electrical Power System] due to [the] degraded system; [a] lack of communication capability with [the] National Load Control Center, and no evidence of a plan to mitigate."¹⁰⁹ The authors of the study concluded that if these problems are not addressed, some of the power arriving in Kandahar from Kabul will be wasted because DABS will not be able to transmit it to end users. USAID officials said PTEC infrastructure construction activities should rectify the SEPS network's communication with the National Load Control Center, allowing both sides to share data on electricity supply and demand. Additionally, DABS estimated that Kandahar's serviceable demand was 64 MW as of February 2018; according to USAID officials, Kandahar's suppressed demand is as high as 100 MW.¹¹⁰ Kandahar's existing substations are capable of transmitting 70-75 MW of the energy supplied by the PTEC transmission lines. However, DABS would need to add an additional bay and transformers to meet the suppressed demand. DABS has plans to make these improvements, but has not yet secured funding to proceed. Without these upgrades, PTEC infrastructure would not be able to fully meet Kandahar's electrical demand.

¹⁰⁸ Electricity running on an alternating current rotates cyclically, first flowing in one direction in a circuit and then reversing to flow in the other. As it does this, the magnitude of the voltage supplied moves in a continuous wave between a positive and negative maximum amplitude. At the midpoint between these two maximums, when the amplitude is zero, no electricity is supplied. Although this has little effect on many electrical appliances, it has significant effects on larger equipment. Multi-phase power provides multiple alternating currents, one after the other, to reduce or eliminate the time that amplitude is zero. Phase angles are the set distance between these alternating currents.

¹⁰⁹ Dynamic Vision, *Load Flow Analysis Report: NEPS – SEPS Connector Supply*, March 2018, p. 4.

¹¹⁰ "Serviceable demand" is the amount of energy that the existing infrastructure can safely supply without overloading. "Suppressed demand" is the number of connections, both legal and illegal, to the power grid.

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



MEMORANDUM

TO: The Honorable John F. Sopko
The Special Inspector General for Afghanistan Reconstruction

FROM: Peter Natiello, Mission Director in Afghanistan
U.S. Agency for International Development

DATE: July 22, 2019

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Special Inspector General for Afghanistan Reconstruction (SIGAR) titled, "USAID's Power Transmission Expansion and Connectivity Project: The Project Is Behind Schedule, and Questions Remain about the Afghan Government's Ability to Use and Maintain the New Power Infrastructure" (SIGAR Code SIGAR-128A)

The U.S. Agency for International Development (USAID) would like to thank SIGAR for the opportunity to provide comments on the draft report. USAID concurs with two of the recommendations and appreciates the opportunity to provide our feedback. However, USAID does not concur with the remaining three recommendations. In addition, USAID does not agree with the stated and implied conclusions in two main areas: the programmatic importance and success of the Power Transmission Expansion and Connectivity (PTEC) project to the Islamic Republic of Afghanistan and USAID's risk-management approach.

USAID has identified portions of the draft report that contain inaccurate or incomplete information. Throughout this report, SIGAR does not distinguish between monitoring and evaluation as a performance-tracking tool in the development sector to quantify the number of beneficiaries with improved energy services because of U.S. Government (USG) assistance and the process of monitoring and verification to track the progress of construction activities. Furthermore, in response to SIGAR's four main identified problems, USAID notes that the PTEC is meeting its objectives by bringing affordable, reliable, and sustainable power to Ghazni and Maidan-Wardak Provinces in Afghanistan. While USAID acknowledges that, in light of policy guidance in Automated Directives System (ADS) Chapter 220, the Agency should have considered and mitigated potential conflicts of interest in several instances, our Mission in Kabul and the Bureau for Afghanistan and Pakistan Affairs have measured the PTEC's progress continuously and taken appropriate actions to reduce risk to both the project and the U.S. taxpayer. USAID has assessed each project and determined that the Government of Afghanistan could use and sustain it.

Recommendation 1: Update the PTEC's monitoring and evaluation plan so that it reflects the number of indicators currently used and ensure that these indicators have accurate and verified baseline data, annual data, annual targets, and end-of-project targets.

Management Comments:

USAID concurs with this recommendation, with the clarification that the plan in question is called the “*Da Afghanistan Breshna Sherkat (DABS) Activity Monitoring and Evaluation Plan (AMELP)*,” and not the “PTEC’s monitoring and evaluation plan.” The DABS AMELP is a living document, updated several times to reflect programmatic changes over the course of implementation under the PTEC. The latest update was finalized in June 2019, and it reflects the number of indicators currently in use (see Attachment 1).

The DABS AMELP includes indicators, baseline data, annual targets, and end-of-project targets. DABS and USAID annually review and update the targets during the data call for the Performance Plan and Report for the PTEC to ensure relevance with the project’s current programmatic status.

Based on the actions taken above, USAID requests the closure of this recommendation.

Recommendation 2: Update or implement, as required, PTEC multi-tiered monitoring plans to include three tiers of oversight and sources of data for each ongoing activity, while not including DABS in more than one tier, or issue an exception memorandum explaining why this is not possible.

Management Comments:

USAID does not concur with SIGAR’s recommendation, and requests its removal. USAID believes that SIGAR is misinformed on the application of the multi-tiered-monitoring (MTM) approach, because there is no expectation that the Mission in Kabul must use all three tiers. Page seven of Mission Order 201.05 on Performance Monitoring states, “Contracting Officer’s Representatives (COR)/Agreement Officer’s Representatives (AOR)/Activity Managers (AM)/On-Budget Monitors (OBM) must utilize all three MTM tiers to monitor each activity they manage during the life of the award, *unless this is not possible based on the terms of an activity’s award documents* (italics added).” An exception memo is not required.

Certain activities within the PTEC, such as the Salang Tunnel Substation and the North East Power System (NEPS)/Southern Electric Power System (SEPS) connector transmission lines use two tiers of monitoring: 1) direct observation by U.S. Government (USG) staff and/or third-party monitors (employed by Tetra Tech); and, 2) performance-reporting by implementing partners. USAID believes that for activities such as these, MTM Tier Three is redundant because most of the entities covered under it, such as other donors or the media, are unlikely to provide any relevant information on the progress of many of the PTEC’s activities. USAID notes that the procurement and installation of bulk energy meters under the PTEC uses all three tiers for monitoring and oversight.

Recommendation 3: Condition the \$128.8 million in on-budget assistance still obligated to DABS on it addressing USAID’s concerns about its internal controls, management of public finances, and vulnerabilities to corruption.

Management Comments:

USAID appreciates this recommendation and takes seriously its commitment to prevent

waste, fraud, and abuse. However, USAID does not concur with SIGAR's recommendation, and requests its removal, because the Agency has taken, and will continue to take, appropriate risk-mitigation measures during the implementation of the PTEC. While we cannot eliminate all risks in an extreme operating environment such as Afghanistan, USAID is addressing concerns about DABS's internal controls, management of public finances, and vulnerabilities to corruption to the greatest extent possible through the measures and corrective actions outlined below. USAID took, and continues to take, appropriate actions to remedy DABS's deficiencies, thereby achieving U.S. national-security and foreign-policy objectives while minimizing fiduciary risk.

USAID designed the PTEC to minimize risk to the American taxpayer's investment. All PTEC contracts are fixed-price for deliverables, which reduces fiduciary risk to the U.S. Government. In addition, USAID has an independent quality-assurance contractor (Tetra Tech) to ensure all construction meets the specifications and requirements of the contracts. Regardless of whether DABS's performance-level reporting data were consistently perfect, USAID always used the construction industry's international standards and monitoring tools for tracking the implementation of construction activities, and conditioned payments of U.S. Government funds based on adequate fiduciary oversight, such as monitoring construction schedules, deficiency trackers, action-item trackers, job-order reports, and third-party monitoring.

USAID paid for a pre-award survey and two follow-up risk-assessments on DABS's management systems in 2011, 2013, and 2014. USAID performed further follow-up assessments in 2013, 2017, and 2018, and incorporated measures to address identified weaknesses in the implementation agreements with DABS. The Agency conducted these assessments both before, and during, the implementation of the PTEC, and will continue similar ones until the completion of the project. As a result of these assessments, the agreements USAID signed with DABS to implement the PTEC included significant protective conditions, such as making the contract fixed-price for deliverables and the independent quality-assurance that ensures all construction meets the contract's specification and requirements. As challenges arose and certain risks materialized, USAID took appropriate action to further reduce fiduciary risk while still advancing vital U.S. national-security and foreign-policy goals. All of these steps are consistent with the prescriptions for risk-management in the USAID *Risk-Appetite Statement*, which include "mak[ing] decisions based on analysis and conclusions supported by the best currently available evidence," "incorporating the findings from risk-assessments . . . in the design of programs," and "continually monitor[ing], learn[ing], and adapt[ing] as the context changes and new evidence emerges." USAID will continue following this approach to prevent waste, fraud, and abuse.

In October 2017, USAID proactively paused all on-budget contracts with DABS following allegations of corruption and mismanagement. During the pause, USAID assessed its energy portfolio, other options to provide power to Afghanistan, and its partnership with DABS. As a result, and as noted in the draft report, USAID removed its consent for DABS to contract for the five substations between Ghazni and Kandahar and the completion of the SEPS. USAID concluded in its final report that, given the importance of this infrastructure to the U.S. Government and its civilian and military objectives in Southern Afghanistan, we would contract for these projects off-budget.

In considering which course of action to take on the transmission line between Ghazni and Kandahar and the Salang Substation, USAID concluded that, given the strategic importance of these two projects, continuing them was in the best interests of the U.S. Government's objectives and equities and Afghan priorities. In addition to the factors cited above, USAID weighed a number of others in our decision to complete the transmission line, including the following:

1. Expanding the power supply to Afghans and improving the national power grid are among the highest priorities of the Afghan and U.S. Governments in the country;
2. The transmission project is more than 50-percent complete (with \$58.6 million already spent), and the Salang Substation is more than 70-percent complete (with \$9.5 million already spent); and
3. Withholding funds and the resulting construction delays or terminations of contracts would be counterproductive and create a wasted investment, which ultimately would cost the U.S. taxpayer more than \$99.5 million, while the remaining construction costs and claims are estimated at \$62 million.

Specifically, USAID conditioned lifting the pause on contracting on the submission by DABS of three deliverables:

1. A revised construction schedule for the NEPS-SEPS Connector Transmission Line;
2. A schedule for developing and approving a NEPS-SEPS Connector Land Acquisition and Resettlement Plan (LARP); and
3. A plan for construction oversight of the NEPS-SEPS Connector Transmission Line.

As shared with SIGAR, DABS met these conditions by March 27, 2018, and USAID lifted the pause on construction. In addition to these actions, DABS and its contractor completed the final routing of the transmission line, which minimized impact on populated areas. The Government of Afghanistan submitted a schedule to develop the LARP and approved a budget of \$360,000 for payments to affected landowners.

USAID continues to assess risk in the PETC, and will take every appropriate action to safeguard our investments. As stated to SIGAR, USAID contracted with the United States Energy Association to assess DABS's corporate management and energy regulatory oversight. The assessment report, expected before the end of July 2019, will further inform USAID on where to focus our future efforts to improve DABS's performance and provide independent oversight and regulatory structure to the energy sector in Afghanistan that will address some of SIGAR's concerns.

Finally, USAID has conducted risk analyses and implemented risk-mitigation plans to deal with our concerns, which DABS has successfully addressed. As SIGAR noted on page 19 of the draft report, "USAID/Afghanistan's Office of Financial Management produced a risk-mitigation plan in August 2017 and concluded that only one of the remaining open weaknesses might affect PTEC's activities, but that DABS still needed to address the other recommendations to improve its institutional capacity" and that, "The one weakness that USAID/Afghanistan expected might affect PTEC activities in 2017 was among the eight that DABS fully addressed" during the July 2018 follow-up report.

As established in ADS Chapter 220, much of USAID's risk-analysis when working through host-country government systems focuses on risks that are specific to a government entity as

it implements a specific activity. Weaknesses or vulnerabilities with respect to an entity as a whole might not apply to its implementation of a specific activity. As related to the PTEC, the contract reduces vulnerability because it specifies payment based on deliverables, as opposed to reimbursement for costs incurred. Similarly, through oversight provided by an independent quality-assurance contractor, USAID has mitigated additional risks.

Recommendation 4: Develop and submit to Congress, in compliance with the requirements of Section 1273 of the National Defense Authorization Act for Fiscal Year 2013, necessity and sustainability assessments covering the seven capital projects that USAID has failed to submit, and revise the assessments covering the three projects that did comply but whose analysis may now be out of date.

Management Comments:

USAID concurs with SIGAR's recommendation. USAID did not prepare assessments pursuant to Section 1273 of the National Defense Authorization Act for Fiscal Year 2013 (NDAA) for seven of the projects SIGAR mentions in the draft report. USAID has already initiated action to correct this mistake. USAID is currently collecting the assessment data and drafting reports that will be circulated for review by the Chief of Mission at the U.S. Embassy in Kabul, the USAID Mission Director, and USAID's Front Office before submission to Congress.

However, USAID did comply with another independent legal requirement pertaining to sustainability that is not identical—but is substantially similar to—the analysis mandated by Section 1273 of the NDAA. USAID completed certifications for all capital assistance activities under the PTEC pursuant to Section 611(e) of the Foreign Assistance Act of 1961, as amended (FAA), which requires that, “Any capital assistance project estimated to cost in excess of \$1 million be assessed to determine “the capability of the country (both financial and human resources) to effectively maintain and utilize the project taking into account among other things the maintenance and utilization of projects in such country previously financed or assisted by the United States.” The USAID Mission in Kabul provided copies of the Section 611(e) certifications to SIGAR in the audit data call, but the draft audit report does not reflect their content and analyses. This is unfortunate, because by focusing solely on the Section 1273 analysis, SIGAR suggests that USAID could be wasting U.S. taxpayer funds on power infrastructure the Afghan Government cannot use or sustain. Contrary to that conclusion, through the Section 611(e) certifications USAID found that the Afghan Government can use and maintain each project effectively, which satisfies the same basic purpose as the assessment required by Section 1273 of the NDAA.

Target Completion Date:

By March 31, 2020, USAID anticipates filing the missing assessments required by Section 1273 of the NDAA and any updates on those assessments already completed.

Recommendation 5: Determine whether to de-obligate funds for these capital projects based on the results of the new or revised assessments.

Management Comments:

USAID does not concur with SIGAR's recommendation, and requests its removal. As stated above, for each of the capital projects under the PTEC, USAID completed the certifications

required by Section 611(e) of the FAA, as amended, which address sustainability. The assessments found that DABS does have the capacity to ensure the sustainability of the projects.

Additionally, many of the PTEC's projects have been completed, and others are progressing well. The transmission lines are 50-percent complete, the Salang Substation is 70-percent complete, and the bulk energy meters are 30-percent complete. All are anticipated to be completed before the end of calendar year 2020. Removing the remaining funds from the remaining projects not only would ensure they will never be sustained (because they will never be completed), but would also create a wasted investment and fail to advance vital U.S. national-security and foreign-policy goals.

Comments on the Draft Report from the U.S. Agency for International Development (USAID)

In the draft audit report, the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) makes a number of statements USAID believes are inaccurate, and we therefore respectfully request their removal or revision, as outlined below.

1. SIGAR Statement [Page ii, Paragraph 1]

“SIGAR identified four main issues affecting PTEC’s implementation, progress, oversight, and sustainability, specifically:

- A. “PTEC projects were late and did not meet USAID’s intended objectives;”

USAID’s Comment:

SIGAR
Comment 1

USAID acknowledges that the PTEC’s projects often fell behind schedule, but contends the program is meeting its intended objectives. According to Implementation Letter (IL) 22-1, “The objective of the PTEC Project is to support the Grantee in expanding and improving Afghanistan’s electric transmission system to provide affordable, reliable and sustainable power to a greater number of Afghans.” The PTEC infrastructure construction component—the first segment—has achieved this intended objective by bringing affordable, reliable, and sustainable power for the first time in the history of Afghanistan to the Provinces of Ghazni and Maidan-Wardak. Specifically, the City of Ghazni replaced its expensive, unsustainable, diesel-generated power and reduced the cost of power tenfold, from an estimated \$0.57 kilowatt-hour (kWh) to \$0.05 kWh. The City of Sayedabad in Maidan-Wardak Province received power for the first time. In a similar manner, the next segment of the PTEC, which consists of 380 kilometers (km) of transmission line between the Cities of Ghazni and Kandahar, will bring affordable, reliable, and sustainable power to a greater number of Afghans after its completion, and provide the critical backbone for Afghanistan’s continued political, economic, and social development.

- B. “USAID could not measure progress toward its intended project purpose and goals for PTEC;”

USAID’s Comment:

SIGAR
Comment 2

As written, this finding is incorrect. USAID measured progress of the PTEC’s construction projects—the transmission lines and substations—by attending consistently the weekly construction meetings with our independent quality-assurance consultant, Tetra Tech; the implementing partner, DABS; and the contractor for the projects. These meetings reviewed and assessed the projects against the approved construction schedule. USAID has shared with SIGAR all of Tetra Tech’s monthly reports for the PTEC’s construction projects, including on the quarterly data calls with the Special Inspector General for Afghanistan Reconstruction’s staff.

The indicators for the PTEC construction component to expand and improve Afghanistan’s electric-transmission system to provide affordable, reliable, sustainable power to a greater number of Afghans is only fully measurable after the completion of the project. USAID

tracked interim indicators during the construction of the project, such as kilometers of transmission lines completed, on an ongoing basis as it was progressing.

Finally, SIGAR does not distinguish between monitoring and evaluation as a performance-tracking tool in the development sector to quantify the number of beneficiaries with improved energy services because of U.S. Government assistance and the process for monitoring and verification used to track the progress of construction activities. These are two different processes, and SIGAR should clarify to which component its findings apply.

- C. USAID continued to fund DABS despite concerns about DABS's internal controls, management of public finances, and vulnerabilities to corruption;"

USAID's Comment:

SIGAR
Comment 3

The above statement is incorrect. USAID followed guidance in Chapter 220 of the Agency's Automated Directive System (ADS), which changed materially over the course of the implementation of the PTEC, and carried out entity- and then activity-specific risk-assessments, identified weaknesses in DABS, and developed risk-mitigation measures that included conditions precedent to initial disbursement and on-going commitments. ADS Chapter 220 does not presume absence of weaknesses, but rather the mitigation of any identified ones. When the Agency revised ADS Chapter 220 in 2014 to focus on activity-specific, as opposed to entity-wide, risks, the Office of Financial Management at the USAID Mission in Kabul produced a risk-mitigation plan that identified only one activity-specific risk, mainly because the Mission has full control over funds disbursed to DABS to pay contractor-specific invoices.

In October 2017, the Mission proactively paused all on-budget contracts with DABS following allegations of corruption and mismanagement.

The PTEC's infrastructure-construction component coordinates with DABS's Program Management Office (PMO) for the USAID-funded projects. The DABS PMO provides internal controls for different donor-funded projects, and each donor has its own dedicated Point-of-Contact/Program Manager in the PMO. For USAID's on-budget projects, our independent quality-assurance contractor, Tetra Tech, field-verifies the construction work; USAID verifies the vouchers; and the special bank account setup by USAID and the Afghanistan Ministry of Finance makes disbursement to the contractor. USAID implements these controls to overcome the challenges we see with DABS related to internal controls, the management of public finances, and vulnerabilities to corruption.

In conclusion, the PTEC has three different components: construction, commercialization, and clean energy. SIGAR should clarify to which component the findings of the draft report apply. USAID has shared this request with SIGAR previously on numerous occasions in response to the Statement of Facts, and during other meetings.

2. SIGAR Statement [Page iii, Paragraph 3 - 2nd Sentence]

"In addition, DABS and USAID did not provide consistent oversight for all PTEC contractors, creating openings for waste fraud and abuse."

USAID's Comment:

SIGAR
Comment 4

This statement is false. USAID requests that SIGAR revise the report or remove the statement in question, as mentioned in our response to the Statement of Facts, and in other meetings. USAID monitored the progress of the construction projects of the PTEC—the transmission lines and substations—by attending consistently the weekly construction meetings with the USAID quality-assurance consultant, Tetra Tech; the implementing partner, DABS; and the contractor for the projects. These meetings reviewed and assessed the project against the approved construction schedule. The multi-tiered monitoring consisted of the following: USAID participates in the weekly review of the project; DABS verified the work via local on-site engineers; and Tetra Tech monitored the construction projects.

3. SIGAR Statement [Page iii, Paragraph 2 - 7th Sentence]

“USAID did not consistently verify DABS’s performance data despite concerns about the accuracy of the data.”

USAID’s Comment:

SIGAR
Comment 5

USAID does not agree with this statement, and requests that SIGAR revise the report or remove the sentence in question, as mentioned in our response to the Statement of Facts, and in other meetings. USAID has consistently monitored DABS’s performance data, as noted above. USAID consistently reviewed and verified the data uploaded by DABS into Afghan Info. In addition, USAID contracted Checchi to conduct a Data-Quality Assessment (DQA) of the PTEC’s indicators, and Checchi rated them as satisfactory, which indicated no concerns about the accuracy of the data.

4. SIGAR Statement [Page 21, Paragraph 5; Page 22, Paragraph 2]

“For instance, DABS officials told us that one of its contractors, Phoenix, was the primary author of PTEC’s original monitoring and evaluation (M&E) plan, and USAID officials indicated to us they were aware of this. USAID officials acknowledged that it was a conflict of interest for Phoenix to develop indicator targets and collect the data used to measure its own performance. . . . Furthermore, in 2014, USAID tasked Phoenix with performing a follow-up assessment to evaluate DABS’s progress in addressing 26 public financial management and internal controls weaknesses previously identified by Ernst & Young. . . . Because Phoenix was directly responsible for building DABS’s capacity and helping it address the risks identified by Ernst & Young, its progress reporting may not have been impartial.”

USAID's Comment:

SIGAR
Comment 6

USAID acknowledges that, in light of policy guidance in ADS Chapter 220, the Agency should have considered and mitigated potential conflicts of interest in relation to Phoenix's contributions to the DABS Monitoring-and-Evaluation Plan and the firm's follow-up assessment of DABS's progress on its public financial management and internal controls.

5. SIGAR Statement [Page 22, Paragraph 5]

"In its 2011 and 2013 risk assessments, Ernst & Young found that DABS did not have financial statements that complied with International Financial Reporting Standards, did not report a cash flow statement, lacked a fixed asset registry, and had not verified fixed assets physically. 71 USAID subsequently authorized DABS to award a contract to Ernst & Young to address these deficiencies, even though ADS 220 states that the same firm providing a risk assessment may not then be tasked with risk mitigation activities because it creates a conflict of interest."

USAID's Comment:

SIGAR
Comment 7

USAID acknowledges that, in light of policy guidance in ADS Chapter 220, the Agency should have considered and mitigated potential conflicts of interest when the Mission in Kabul gave consent to DABS to award a contract to Ernst & Young to address the findings of risk-assessments of DABS's financial systems and fixed-asset registry.

6. SIGAR Statement [Page 23, Paragraph 3]

"ADS 220 requires USAID/Afghanistan to 'monitor, evaluate, and provide oversight' of partner government procurement systems. Yet USAID approved DABS to award all three of these contracts on-budget, and only prevented DABS from awarding the \$135 million substations contract and the \$9.9 million SEPS Completion contract by revoking its consent just before DABS awarded them. USAID officials told us that they had limited oversight of the Afghan government's procurement systems, particularly after the Afghan government established the National Procurement Authority in October 2014. They said Tetra Tech officials assisted DABS with evaluating technical proposals, but after that, USAID lost all visibility of the on-budget contracts."

USAID's Comment:

SIGAR
Comment 8

USAID does not agree with this statement, and requests that SIGAR remove it, as mentioned in our response to the Statement of Facts. USAID reviews and approves all invoices from DABS's contractors before disbursing funds to DABS. In turn, USAID also confirms that DABS actually pays its contractors for USAID-approved invoices from DABS's contractors. These steps mitigate risk. USAID requests SIGAR to incorporate the above risk-mitigation actions to provide context that justifies continued on-budget assistance.

7. SIGAR Statement [Page 7, Paragraph 3]

"USAID officials told us that because another \$179.5 million from the Afghanistan Infrastructure Fund will be cancelled by the end of fiscal year 2019, USAID will need to determine if additional money from the Economic Support Fund is available to complete the five remaining 220 kV substations planned for the Ghazni to Kandahar transmission line route. If USAID does not authorize this additional funding for PTEC, it may not be able to construct three of these remaining five substations."

USAID's Comment:

SIGAR
Comment 9

USAID does not agree with this statement, and requests that SIGAR revise the report. Under its internal requirements, USAID must fund a construction project fully before its award. USAID has identified sufficient Economic Support Funds to cover the Afghanistan Infrastructure Funds (AIF) that will lapse at the end of Fiscal Year (FY) 2019, which will not be the full \$179.5 million. To date, the Agency has spent more than \$60 million on the Ghazni-to-Kandahar transmission line. USAID will determine the actual amount that will lapse closer to the end of the Fiscal Year, as activities are still expending funds.

8. SIGAR Statement [Page iii, Paragraph 4 - 4th and 5th Sentences]

"However, we found that USAID improperly used DABS for two of the three sources of information in some plans. Additionally, USAID did not develop multi-tiered plans for 3 of the 12 on-budget contracts managed by DABS, and documented an explanation for only one of these missing plans."

USAID's Comment:

SIGAR
Comment 10

USAID does not agree with this statement, and requests that SIGAR revise the report or remove the sentences in question, as mentioned in our response to the Statement of Facts. First, it is not improper to use DABS for two of the three sources in the multi-tiered plan, based on the exception provided on page seven of Mission Order 201.05 on Performance Monitoring, which states that the "monitoring requirements of each award will be determined by the technical office in which it is managed, in collaboration with [the Office of Program Project Development, OPPD], in consultation with [the Office of Acquisition and Assistance, OAA], and documented in a Monitoring Requirements Table (MRT)."

Second, each of the activities implemented by DABS has a documented, multi-tiered monitoring plan (MTM) developed in consultation with OPPD and OAA, if required at the time of implementation. USAID clarified in its responses to the Statement of Facts that the Mission did not develop MTM plans for the activities called, "Management Support for Kandahar Operating Center" and "Construction Management Support," because the Agency terminated them in February and July 2015, respectively, which was before we began implementing MTMs.

9. SIGAR Statement [Page 12 Paragraph 4]

"When we asked why DABS did not purchase the bulk meters in a timely fashion, a DABS official said that the utility lost track of the procurement and ultimately forgot about it. He further stated that although DABS did a poor job tracking its own procurements, USAID also did not provide adequate oversight or follow up with DABS about these delays."

USAID's Comment:

SIGAR
Comment 11

USAID does not agree with this statement, and requests that SIGAR revise the report or remove the sentences in question, as mentioned in our response to the Statement of Facts. Neither DABS nor USAID "forgot" the procurement of the bulk meters. The Agency has communicated this reality to SIGAR several times, with the following timeline:

- On October 17, 2015, USAID issued its consent (PTEC IL 22-46) to DABS to issue a Request for Proposals (RFP) for bulk energy meters;
- DABS posted the RFP on the website of the Afghan National Procurement Authority (NPA), with a submission deadline of January 2016;
- On January 12, 2016, USAID issued its consent to DABS for an extension of the deadline to submit bids to February 20, 2016;
- On July 18, 2016, DABS submitted a Bid-Evaluation Report to the NPA, and requested its approval to sign a contract Shenzhen Star Instruments for the procurement and installation of bulk energy meters;
- On July 19, 2016, DABS submitted the Bid-Evaluation Report to USAID, and requested consent to sign the contract;
- On August 11, 2016, USAID issued its consent (PTEC IL 22-52) for DABS to execute a contract with Shenzhen Star for the procurement and installation of bulk energy meters;
- In September 2016, NPA asked DABS for clarifications on procurement and the evaluation of bids;
- On November 12, 2016, the bid security of the winning bidder expired;
- On November 29, 2016, the winning bidder renewed its bid security;
- On May 31, 2017, DABS executed the contract with Shenzhen Star; and
- On August 15, 2017, DABS issued a Notice to Proceed to Shenzhen Star.

10. SIGAR Statement [Page 16, Paragraph 2, Last Sentence]

"However, when we analyzed the data available on Afghan Info in April 2019, we found that while the data closely mirrored USAID's dataset, there were still differences, including indicators and indicator results."

USAID's Comment:

SIGAR
Comment 12

This statement is incorrect, and USAID requests that SIGAR revise it. The Agency and DABS harmonized the data in November 2018. USAID notes that there is a three-month time lag between USAID's Fiscal Year and DABS's reporting cycles. (DABS's reporting is three months behind USAID's reporting period.) Therefore, the data in Afghan Info are retrospective.

11. SIGAR Statement [Page 16, Paragraph 3, Last Sentence]

"Because of differences in DABS and USAID's reporting cycles, sometimes a lag of up to 3 months occurs between when DABS submits data and when USAID approves them."

USAID's Comment:

SIGAR
Comment 13

USAID does not agree with this statement, and requests that SIGAR remove it. The Agency clarified in its response to the Statement of Facts that there is a three-month time lag between USAID's fiscal year and DABS reporting cycles. DABS reporting is three months behind USAID's reporting period. Therefore the data in Afghan Info are retrospective. USAID has never taken three months to approve DABS's data submitted in Afghan Info, as the statement above indicates.

12. SIGAR Statement [Page 16, Paragraph 4]

"Although USAID, DABS, Tetra Tech, and Checchi officials raised concerns about the data DABS provided to demonstrate progress toward PTEC's intended outcomes, neither USAID nor a third party verified the data. ADS 201 states that when data do not meet standards of validity, integrity, precision, reliability, and timeliness, it 'could result in an erosion of confidence in the data or could lead to poor decision making.' By not verifying all DABS data, despite its concerns about the accuracy of that data, USAID risked making misguided management decisions about PTEC based on incorrect information."

USAID's Comment:

SIGAR
Comment 14

USAID does not agree with this statement, and requests that SIGAR revise the report or remove the sentences in question, as mentioned in our response to the Statement of Facts. Outcomes are measured after the completion of a project. Specifically, outcomes of completed energy-sector infrastructure are measurable only after the infrastructure is energized, and USAID does not use them for management decisions. The installation of bulk energy meters is currently ongoing; these meters will identify the energy losses. DABS will then institute measures to reduce them, and report on related outcomes. USAID further clarified in our response to the Statement of Facts that Checchi conducted DQAs of the PTEC's indicators and rated them as satisfactory.

Also, in this instance, and throughout this report, SIGAR does not distinguish between monitoring and evaluation as a performance-tracking tool in the development sector to quantify the number of beneficiaries with improved energy services because of U.S. Government assistance and the process of monitoring and verification used to track the progress of construction activities. Regardless of whether DABS's performance-level reporting data were consistently perfect, USAID always used the construction industry's international standards and monitoring tools for tracking the implementation of construction activities and conditioned payments of U.S. Government funds based on adequate fiduciary oversight, such as monitoring construction schedules, deficiency trackers, action-item trackers, job-order reports, and third-party monitoring.

13. SIGAR Statement [Page 17, Paragraph 2]

"Checchi's assessments found that all of the PTEC indicators were "satisfactory."⁵¹ However, Checchi officials explained to us that "satisfactory" was a term they used to note

that although DABS's indicator data looked acceptable, there were weaknesses in its data collection methods. Across all of USAID's indicators, Checchi's assessments also found that implementing partners were not using clear indicator terminology and definitions, following consistent data collection procedures, transcribing data correctly, or maintaining precision due to improper disaggregation of data. Checchi officials told us USAID had no system in place to validate DABS's indicator data and that it is 'hard to imagine there is a discerning eye' when USAID is reviewing it."

USAID's Comment:

**SIGAR
Comment 15**

USAID does not agree with this statement, and requests that SIGAR revise the report or remove the sentences in question, as mentioned in our responses to the Statement of Facts. USAID clarified that Checchi staff did not comment on the section "Actions needed to address limitations prior to the next DQA" for any of PTEC's DQA checklists for FY 2016 and 2017 rated "Satisfactory." Checchi staff did not document the weaknesses of these checklists in the PTEC's data-collection methods. As such, no evidence supports Checchi's claims that there were weaknesses in DABS's collection of data, and the report needs revision accordingly.

USAID further clarified in the same response to the Statement of Facts that the FY 2016 and FY 2017 DQA reports did not list the PTEC as having problems with using clear indicator terminology and definitions; performing consistent data-collection procedures; or transcribing data correctly and maintaining precision. A comment on implementing partners in general is not relevant to this report, and the report needs revision accordingly.

14. SIGAR Comment [Page 39, Table 9, Rows 4 and 5]

Contract Description	Multi-Tiered Monitoring Plan?	Tiers Used	Reason Fewer Than Three Tiers Were Used
220 kilovolt (kV) transmission line between Ghazni and Kandahar	Yes	1, 2	The plan does not explicitly include Tier 5, but states that third-party monitoring is "planned on a monthly basis."
220 kV substation and 20 kV network at the Salang Tunnel	Yes	1, 2	The plan does not explicitly include Tier 5, but states that third-party monitoring is "planned on a monthly basis."

USAID's Comment:

**SIGAR
Comment 16**

USAID's multi-tier monitoring in Afghanistan only has three tiers, so the reference to "Tier 5" is incorrect. Tier 1 replaced Tier 5 in Mission Order 201.05 on Performance Monitoring. As mentioned above, USAID does not concur on the use of all three tiers of oversight for all DABS's activities. Each of the activities implemented by DABS has its own multi-tiered monitoring plan, as determined by the Mission in Kabul in consultation with OPPD and OAA. The Salang Tunnel Substation and NEPS/SEPS connector transmission lines use two tiers of monitoring: direct observation by U.S. Government staff and/or third-party monitors

(employed by Tetra Tech) and performance-reporting by implementing partners. Tier 3 is redundant for these activities because most of the entities covered by it, such as other donors or the media, would be unlikely to provide any relevant information on the progress of many of the PTEC's activities.

15. SIGAR's Conclusion on Page 27

USAID's Comment:

SIGAR
Comment 17

USAID requests that SIGAR adjust the concluding statements to reflect the responses provided by USAID to the Statement of Facts, as well as the above responses provided in reaction to the draft report.

SIGAR's Response to Comments from the U.S. Agency for International Development (USAID) Mission for Afghanistan (USAID/Afghanistan)

SIGAR Comment 1: In response to USAID's comments, we revised the report to better reflect that the DABS commercialization component did not meet USAID's intended objectives.

SIGAR Comment 2: In response to USAID's comments, we revised the report to reflect that USAID originally used 14 indicators to measure the Power Transmission Expansion and Connectivity (PTEC) project's progress toward achieving its project purpose and goals, but changed 4 and dropped 8 without explanation; set baselines for only 10 of the original 14 indicators and targets for 8; and did not validate the data it sourced from DABS for 4 of the 6 indicators it was still using as of 2018.

SIGAR Comment 3: In response to USAID's comments, we revised the report to better reflect which components USAID continued to fund with on-budget assistance despite its concerns about Da Afghanistan Breshna Sherkat's (DABS) internal controls, management of public finances, and vulnerabilities to corruption.

SIGAR Comment 4: In response to USAID's comments, we revised the report to better reflect that USAID provided weak oversight for the DABS commercialization component.

SIGAR Comment 5: See SIGAR Comment 2.

SIGAR Comments 6 and 7: In response to USAID's comments, we revised the report to reflect USAID's acknowledgement that it should have considered and mitigated the conflicts of interest regarding Phoenix Information Technology Solutions Ltd. and Ernst & Young.

SIGAR Comment 8: We acknowledge USAID's statement that it will mitigate the fraud risk associated with its on-budget contracts with DABS by continuing to review and approve invoices from DABS's contractors, and reproduced USAID's earlier comments about this in the report. However, we remain concerned that USAID's actions will not be sufficient to mitigate the fraud risk. As we noted in our report, USAID/Afghanistan has historically missed fraud indicators when reviewing invoices submitted by DABS and its contractors, and may continue to do so again in the future.

SIGAR Comment 9: In response to USAID's comments, we revised the report to reflect that not all \$179.5 million from the Afghanistan Infrastructure Fund that USAID previously identified as at risk of cancellation will be cancelled by the end of fiscal year 2019, and that USAID has identified sufficient funding from the Economic Support Fund to replace the cancelling funds.

SIGAR Comment 10: SIGAR acknowledges that Mission Order 201.05 allows technical offices to determine the monitoring requirements for each award. However, Mission Order 201.05 states that the purpose of USAID/Afghanistan's multi-tiered monitoring approach is to enable USAID "to gather and analyze data from multiple sources, triangulate information to ensure confidence in the reporting, and use the results to make programmatic decisions."¹¹¹ If a technical office allows multi-tiered monitoring plans to list the same entity in multiple tiers, as USAID/Afghanistan did for some PTEC activities, then this does not meet the intent of Mission Order 201.05 because the office is not using multiple sources.

We also acknowledge that DABS terminated the Management Support for Kandahar Operating Center and Construction Management Support contracts before Mission Order 203.04 came into effect in March 2016. As a result, we limited our analysis to the 10 PTEC-funded, on-budget contracts that were active after USAID implemented Mission Order 203.04 in March 2016, rather than the 12 on-budget contracts awarded over the lifetime of the project.

SIGAR Comment 11: Based on the timeline USAID provided, we revised the report to remove a DABS official's statement that DABS at one point "forgot" about the bulk meters contract, resulting in the long delay in

¹¹¹ Mission Order 201.05, "Mission Order on Performance Monitoring," September 20, 2017 p.3.

awarding the contract. However, we note that USAID's timeline has two gaps of at least 6 months, suggesting that the official's statement that DABS "lost track" of the procurement may be accurate.

SIGAR Comments 12 and 13: In response to USAID's comments, we revised the report to better reflect that USAID and DABS are on different reporting cycles, and that the data in Afghan Info is retrospective.

SIGAR Comment 14: We acknowledge that some PTEC indicators, such as the "number of MW hours supplied to customer," may not reflect significant progress until PTEC infrastructure is completed and energized. However, this does not absolve USAID of its responsibility to collect and verify data for those indicators. Furthermore, PTEC's objectives were not just to construct new transmission infrastructure, but also to increase the effectiveness of DABS's corporate management practices, increase revenue collection, reduce losses, and improve its operation and maintenance capabilities. USAID could and should have tracked outcomes measuring these capacity-building activities, such as "percent reduction in DABS's revenue losses," throughout the project and used them to inform management decisions.

We assessed the extent to which USAID verified the data DABS provided to show progress against the six indicators in PTEC's M&E plan. We acknowledged in our draft report that USAID used independent reporting from a third-party monitor to verify DABS's progress against the two output indicators tracking construction of new infrastructure. USAID did not verify DABS's data for the four other indicators.

SIGAR Comment 15: We disagree with USAID's comment. We acknowledge in the report that USAID does not agree with the Checchi officials' statements about the data quality assessment process, and we agree that Checchi could and should have lodged its concerns with USAID when given the opportunity to comment on "actions needed to address limitations prior to the next [data quality assessment]." However, this does not invalidate the Checchi officials' comments or give sufficient reason to remove those comments from the report.

In response to USAID's comments, we revised the report to better reflect that Checchi's assessment was referring to one PTEC indicator that it evaluated as high-risk.

SIGAR Comment 16: In response to USAID's comments, we revised table 9 to better reflect USAID's reasons for providing fewer than three tiers in the multi-tiered monitoring plans for the 220 kV transmission line between Ghazni and Kandahar and the 220 kV substation and 20 kV network at the Salang Tunnel contracts. We also note that USAID developed these two plans after it issued Mission Order 201.05, which consolidated the original five tiers into three and required the use of all three tiers unless "this is not possible based on the terms of an activity's obligating documents."¹¹²

SIGAR Comment 17: In response to USAID's comments, we updated our conclusions to reflect that USAID addressed our first recommendation and add USAID's statement that PTEC infrastructure replaced expensive, unsustainable, diesel-generated power for the cities of Ghazni and Sayadabad, reducing the cost of power from an estimated \$0.57 per kWh to \$0.05 per kWh.

¹¹² Mission Order 201.05, "Mission Order on Performance Monitoring," September 20, 2017 p.7.

APPENDIX XIII - ACKNOWLEDGMENTS

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

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