

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-75 Financial Audit

USAID's Initiative to Strengthen Local Administrations Project: Audit of Costs Incurred by ARD Inc.

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



SIGAR 18-75-FA/ISLA Project

SEPTEMBER
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 1, 2015, the U.S. Agency for International Development (USAID) awarded a 5-year cost-plus-fixed-fee contract for \$62,364,687 to Tetra Tech ARD to support the Initiative to Strengthen Local Administrations (ISLA) project. The purpose of the project was to improve the Afghan government's provincial governance in fiscal and development planning, citizen representation, and delivery of public services. USAID modified the contract four times, including updating the contractor's name from Tetra Tech ARD to ARD Inc. (ARD). None of the modifications affected the contract's period of performance or the total estimated amount.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$9,356,162 charged to the contract from October 1, 2016, through September 30, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in ARD's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether ARD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ARD's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

September 2018

USAID's Initiative to Strengthen Local Administrations Project: Audit of Costs Incurred by ARD Inc.

SIGAR 18-75-FA

WHAT THE AUDIT FOUND

Crowe identified one deficiency in ARD's internal controls and one instance of noncompliance with the terms and conditions of the contract and applicable regulations. While testing 25 expenditures, Crowe found that ARD did not pay its subcontractor, Gender Resources Inc., in a timely manner. According to the payment terms, ARD had 30 days from invoice approval to pay the subcontractor, but it paid one invoice 38 days after the invoice was approved.

Crowe did not identify any questioned costs, which would have consisted of ineligible costs—costs prohibited by the contract, applicable laws, or regulations—and unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Crowe reviewed three audit reports that included ARD's ISLA project within their scope or otherwise contained findings that could have a direct, material effect on the SPFS. These reports contained eight relevant findings that required follow-up on corrective actions. During audit testing, Crowe did not identify any instances where the eight findings had been repeated. Accordingly, Crowe concluded that ARD had taken adequate corrective action to address the previous findings.

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

WHAT SIGAR RECOMMENDS

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

1. Advise ARD to address the report's one internal control finding.
2. Advise ARD to address the report's one noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 19, 2018

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

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by ARD Inc. (ARD) under a U.S. Agency for International Development (USAID) cost-plus-fixed-fee contract to support the Initiative to Strengthen Local Administrations (ISLA) project.¹ The purpose of the project was to improve the Afghan government's provincial governance in fiscal and development planning, citizen representation, and delivery of public services. Crowe's audit covered \$9,356,162 charged to the task order from October 1, 2016, to September 30, 2017. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Advise ARD to address the report's one internal control finding.**
- 2. Advise ARD to address the report's one noncompliance finding.**

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

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-125)

¹ The contract number is AID-306-C-15-00005.



ARD, Inc.

Special Purpose Financial Statement

Initiative to Strengthen Local Administrations (ISLA) Project

For the Period October 1, 2016 through September 30, 2017

(With Independent Auditor's Report Thereon)

Table of Contents

TRANSMITTAL LETTER.....	1
SUMMARY	2
INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	6
SPECIAL PURPOSE FINANCIAL STATEMENT	8
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT	11
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL.....	12
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE.....	14
SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	16
SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS	17
APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS	20

**Crowe LLP**

Independent Member Crowe Global

1455 Pennsylvania Avenue, N.W., Suite 700

Washington, D.C. 20004-1008

Tel +1 202 624 5555

Fax +1 202 624 8858

www.crowe.com

TRANSMITTAL LETTER

August 28, 2018

Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of ARD, Inc.'s ("ARD") contract number AID-306-C-15-00005, for the period October 1, 2016, through September 30, 2017.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of ARD, SIGAR, and the United States Agency for International Development provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's responses have been incorporated as an appendix to the report.

Thank you for providing us the opportunity to work with you and to conduct the audit of ARD's contract.

Sincerely,

A handwritten signature in black ink that reads "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

Tetra Tech ARD (“ARD”) was awarded a task order, Initiative to Strengthen Local Administrations (ISLA) Project, (“ISLA”) under contract number AID-306-C-15-00005 by the United States Agency for International Development (“USAID”). Effective January 25, 2016, upon execution of modification number 1 to the contract, the Federal contractor’s name changed from “Tetra Tech ARD” to “ARD, Inc.”

The ISLA Program’s purpose was to enable the Government of the Islamic Republic of Afghanistan (“GIRoA”) to improve provincial governance in the areas of fiscal and development planning, representation of citizens, and enhanced delivery of public services. ARD’s contract is intended to contribute to this purpose. The Cost-Plus-Fixed-Fee Completion Contract was issued effective February 1, 2015, and included an initial project completion date of January 1, 2020. The contract was initially funded at the level of \$62,364,687. As of September 30, 2017, the order had been modified four times. Modifications that resulted in funding changes, adjustments to the period of performance, and/or changes in scope are summarized below:

Modification Number	Modification Date	Description of Change
1	January 26, 2016	<ol style="list-style-type: none"> 1. Changed the Contractor's Name from "Tetra Tech ARD" to ARD 2. Realigned the Initiative to Strengthen Local Administration program budget. 3. Redefined Section B.8, Fee Schedule 4. Revised section F.5 report and deliverables (provincial rapid assessment) 5. Revised section F.5 report and deliverables (Summary of Reports) 6. Updated section F.6, Key Personnel 7. Updated section G.3, contracting officer's representative (COR) 8. Revised section H.7 (d) annual salary increase 9. Revised the subcontractor's name from "Pax Mondail LLC" to "Mondial Risk Management Company (MRMC)"
2	June 23, 2016	<ol style="list-style-type: none"> 1. Updated the new Contracting Officer's Representative (COR) name in Section G.3 of the contract.
3	December 29, 2016	<ol style="list-style-type: none"> 1. Incorporated the COR's name, Fazil Menallah Aman, into GLAAS system.
4	March 6, 2017	<ol style="list-style-type: none"> 1. Provided incremental funding for the amount of \$13,580,000, thereby increasing the total obligated amount to \$31,580,000 from \$18,000,000.

Project requirements as outlined in contract number AID-306-C-15-00005 are outlined below:

- **Provincial Planning:** ISLA will strengthen the capacity of provincial actors and administrative offices. Improved center-province-center communication and collaboration will strengthen linkages between the central and provincial levels for planning, budgeting, and service delivery;

- **Sub-National Institution Building:** The program will strengthen the foundations of provincial entities and the Independent Directorate of Local Governance (IDLG) through targeted capacity building efforts focused on institutionalizing systems and administrative processes and strengthening the enabling environment;
- **Inclusive Advocacy:** The program will improve the ability of provincial actors to represent citizen interests in planning and service delivery, and advocate to their central level counterparts for the inclusion of provincial priorities in national plans and budgets; and
- **Public Engagement:** ISLA will improve the ability of provincial authorities to reach out to citizens and inform them of government decisions, actions and general information while soliciting feedback to understand citizen priorities and needs.

Crowe's audit covered the period October 1, 2016, through September 30, 2017. During this period, ARD reported \$9,356,162 in incurred costs. Within this same period, ARD reported having accomplished the following key results (unaudited by Crowe LLP) as described in the final report for the contract number AID-306-C-15-00005:

- During the reporting period, ISLA updated and completed the Dari & English versions of Financial Management Curriculums. The curriculums were shared with IDLG-Capacity and Institutional Development Directorate (CIDD) team for their feedback and final approval.
- ISLA provided technical support to Admin/Finance Directors and Chief of Staffs to prepare a template for the district governors to identify their needs and challenges. The template will help Provincial Governors' Offices (PGOs) to assess needs and challenges and find creative solutions to problems. ISLA also met with Provincial Governors (PG) and human resource (HR) directors to encourage women to apply for vacant positions within the PGO.
- ISLA supported a public reporting event conducted by the PG's office. At this event, line directorates shared their achievements with the public. Eighty people participated in this event, nine of whom were female. The participants in this event included Provincial Council (PC) members, civil society activists, and farmers. The provincial governor, while appreciating this support by USAID ISLA, highlighted that the subnational government (SNG) is accountable to the public and must report on its achievements.

Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of ARD's contract number AID-306-C-15-00005.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of ARD's internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period October 1, 2016, through September 30, 2017. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”) and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Real Property Management;
- Procurement and Suspension and Debarment; and
- Reporting.

Methodology

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

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

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by ARD. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee’s compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract executed by and between ARD and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, reimbursement requests submitted by ARD to the Government, procurements, reports, and government property items for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess ARD’s compliance. Testing of indirect costs was limited to: 1) determining whether indirect costs were charged to the U.S. Government in accordance with the rate limitations established within the contract; 2) testing whether indirect costs charged to the contract were calculated in accordance with the provisions of the Negotiated Indirect Cost Rate Agreement (“NICRA”); and 3) determining whether ARD adjusted any charges based on the provisional indirect cost rates incorporated within the NICRA following revision or finalization of the provisional rates.

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

Three audits were issued by SIGAR: one for costs incurred under USAID's Land Reform in Afghanistan Program by ARD; one for costs incurred under USAID's Afghan Sustainable Water Supply and Sanitation Project; and one for costs incurred under USAID's Local Governance and Community Development Project in Northern and Western Regions of Afghanistan. One audit was issued by USAID for costs incurred under ISLA and the Women's Leadership Development (WLD) Project. There were a total of eight findings in those audits related to procurement and allowable costs. Crowe performed follow-up audit procedures with the results noted in **Section 2**.

Due to the location and nature of the project work, certain vendors and individuals who supported the project still residing in Afghanistan, and assets purchased with the Federal funds still being physically located in-country, certain audit procedures were performed on-site in Afghanistan.

Summary of Results

Upon completion of Crowe's procedures, Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

With regard to matters of internal control and compliance with laws, rules, regulations, and the terms of the contract, Crowe did not identify any deficiencies in internal control that were classified as significant deficiencies or material weaknesses. However, one instance of noncompliance was noted and reported as Finding 2018-01 in **Section 1**.

Crowe conducted procedures to determine if matters previously resulting in findings were identified during the audit of the ISLA program, as well. Of the eight findings requiring follow-up, none were repeated. Therefore, Crowe concluded that ARD took adequate corrective action with respect to matters that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives was adequate. The specific results of the follow-up procedures and the status of the findings are noted within **Section 2**.

Crowe also conducted interviews of management with respect to knowledge of known or suspected fraud, waste, or abuse. Management disclosed that credible evidence of suspected fraud pertaining to a subcontractor's invoices had been detected through management's monitoring procedures. This matter was reported by management to the USAID OIG and USAID Contracting Officer. Whereas the matter is under review by the Government, has not been determined by law enforcement to represent a known fraud, and total costs associated with the subcontractor are immaterial to the Statement, no additional procedures were required of Crowe in accordance with *Government Auditing Standards*. Accordingly, the matter is considered open for further investigation by the Government and is not reported herein.

Summary of Management Comments

Management agreed with the finding.

References to Appendices

The auditor's reports are supplemented by one appendix - **Appendix A** containing the Views of Responsible Officials.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of ARD, Inc. ("ARD"), and related notes to the Statement, as of September 30, 2017, and for the period October 1, 2016, through September 30, 2017, with respect to contract number AID-306-C-15-00005.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in contract number AID-306-C-15-00005 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by ARD in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of contract number AID-306-C-15-00005, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated August 28, 2018, on our consideration of ARD's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARD's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

August 28, 2018
Washington, D.C.

Tetra Tech ARD
Special Purpose Financial Statement
AID-306-C-15-00005
For the Period October 1, 2016, through September 30, 2017

TABLE A - Budget Summary by Component	<u>Questioned Costs</u>				
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
USAID - AID-306-C-15-00005	\$ 62,364,687	\$ 9,356,162			4
Total Revenue	\$ 62,364,687	\$ 9,356,162			
<i>Costs Incurred</i>					
CLIN 1 - Provincial Planning and Budgeting	\$ [REDACTED]	\$ [REDACTED]			6
CLIN 2 - Sub-National Institution Building	[REDACTED]	[REDACTED]			
CLIN 3 - Inclusive Advocacy	[REDACTED]	[REDACTED]			
CLIN 4 - Public Engagement	[REDACTED]	[REDACTED]			
CLIN 5 - Grants Under Contract (GUC)	[REDACTED]	-			
Total Cost without Fee	[REDACTED]	[REDACTED]			
Fixed Fee	[REDACTED]	[REDACTED]			
Cost Plus Fixed Fee	\$ 62,364,687	\$ 9,356,162			
Balance	\$ -	\$ -			7

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

ARD, Inc.
Notes to the Special Purpose Financial Statement
For the Period October 1, 2016 through September 30, 2017

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number AID-306-C-15-00005 for the Initiative to Strengthen Local Administrations Project for the period October 1, 2016 through September 30, 2017. Because the Statement presents only a selected portion of the operations of ARD, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of ARD. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract number AID-306-C-15-00005. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on an accrual basis and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in GAAP, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. Exchange rates are booked at actual when US\$ are transferred to local currency accounts. This can be direct from BTV to a foreign currency account of from a local US\$ account in the case of US\$ being used in-country. These rates are reviewed for consistency during local account review but are not validated with any source other than the local financial institution. ARD uses the exchange rate obtained at the time foreign currency was obtained for month end valuation of site account

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which ARD is entitled to receive from the USAID for allowable, eligible costs incurred under the contract during the period of performance.

Note 5. Revenue Recognition

The revenue recognized on the statement represents the actual direct and indirect costs incurred during the period of performance plus the portion of the fixed fee that was earned.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the approved contract budget contained in modification number 05 dated March 6, 2018. The budgetary amounts presented are reflective of the full project period, which extends beyond the period covered by the Statement.

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

Note 8. Currency

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

Note 9. Program Status

The Initiative to Strengthen Local Administrations Project remains active. The period of performance for the contract is scheduled to conclude on January 31, 2020 per the contract dated February 1, 2015.

Note 10. Reconciliation to Invoiced Amounts

The costs incurred presented on the Statement do not differ from the total invoiced costs.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the October 1, 2016 through September 30, 2017 period covered by the Statement. Management has performed their analysis through August 28, 2018.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL
STATEMENT

No questioned costs were identified as a result of the auditor's procedures.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (“the Statement”) of ARD, Inc. (“ARD”, and related notes to the Statement, for the period October 1, 2016 through September 30, 2017, with respect to contract number AID-306-C-15-00005. We have issued our report thereon dated August 28, 2018.

Internal Control over Financial Reporting

ARD’s management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management’s authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period October 1, 2016 through September 30, 2017, we considered ARD’s internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of ARD’s internal control. Accordingly, we do not express an opinion on the effectiveness of ARD’s internal control.

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

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

Purpose of this Report

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

Restriction on Use

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

Crowe LLP

Crowe LLP

August 28, 2018
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of ARD, Inc. ("ARD"), and related notes to the Statement, for the period October 1, 2016 through September 30, 2017, with respect to contract number AID-306-C-15-00005. We have issued our report thereon dated August 28, 2018.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of ARD.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in Finding 2018-01 in the accompanying Schedule of Findings and Questioned Costs.

ARD's Response to the Finding

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

Purpose of this Report

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

Restriction on Use

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

Crowe LLP

Crowe LLP

August 28, 2018
Washington, D.C.

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Cash Payment Not Made Within 30 Days of Invoice to USAID

Deficiency and Non-compliance

Condition: During testing of 25 expenditure items for compliance with FAR 52.216-7, we noted that one payment was made to Gender Resources Inc. ("GRI"), an approved subcontractor on the award, six days past the required payment period. The invoice was approved by ARD on February 27, 2017. Pursuant to the payment terms agreed upon between GRI and ARD, the invoice payment was required to be made by no later than March 29, 2017. The payment to GRI was not processed until April 6, 2017 - eight days later than what was allowed by FAR 52.216-7.

Criteria: FAR 52.216-7(b)(1)(ii)(A) requires payments be made to vendors providing services under the contract in accordance with the terms and conditions of the subcontract or invoice; and (2) Ordinarily within 30 days of submission of the contractor's payment request to the Government"

Article 8 of the subcontract between ARD and GRI states that ARD will pay GRIs costs within 30 days after invoice approval.

Questioned Costs: None.

Effect: The Government reimbursed ARD for an expense in advance of its qualifying as a reimbursable cost.

Cause: ARD inadequately monitored the payment deadline associated with the invoice.

Recommendation: We recommend that ARD implement a process to monitor the timeliness of payments made to vendors and subcontractors.

SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Crowe identified three audit reports that included ARD's ISLA Program within their scope or otherwise contained findings that could be direct and material to the SPFS. Upon review of the three reports, two reports were noted as containing eight findings in total were noted that required follow-up on corrective actions. The findings were identified within the following reports:

- Audit of costs incurred in Afghanistan by Tetra Tech ARD under USAID contract 306-C-15-00005 Initiative To Strengthen Local Administration (ISLA) for February 1, 2015 to September 30, 2015 and Contract 306-I-TO-14-00031 Women's Leadership Development (WLD) for September 23, 2014 to September 30, 2015, Audit report number 3-000-17-032-R dated June 6, 2017 (Findings Section 6.1; Section 6.2; Section 5.3); and
- Audit of costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project for the Period September 30, 2009, through December 29, 2012, Report number SIGAR 15-28-FA dated January 13, 2015, (Findings 2014-01; 2014-02; 2014-03; 2014-04; 2014-08).

The prior audit findings have been reflected below. Crowe concluded that the corrective action taken by ARD was adequate. The determination was made by both reviewing ARD's actions taken in response to sustained questioned costs as well as testing to determine whether the identified issue was also detected during Crowe's audit such that the error could have a material impact on the SPFS.

Finding Section 6.1: Armored Vehicle Rental Costs in Excess of Market and Not Reasonable

Report: *Audit of Costs Incurred in Afghanistan by Tetra Tech ARD Under USAID Contract 306-C-15-00005 for February 1, 2015 to September 30, 2015 and Contract 306-I-TO-14-00031 for September 23, 2014 to September 30, 2015 Report Number 3-000-17-032-R*

Issue: The cost of an armored vehicle rental was in excess of market costs and not deemed reasonable. \$125,302 was questioned as ineligible. SIGAR defines ineligible costs as those "that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are not award related."

Status: During our testing of Allowable Costs, Crowe did not identify instances in which costs incurred were considered to be unreasonable. This finding is not repeated.

Finding Section 6.2: Cost of Primary Risk Manager in Excess of Market and Not Reasonable

Report: *Audit of Costs Incurred in Afghanistan by Tetra Tech ARD Under USAID Contract 306-C-15-00005 for February 1, 2015 to September 30, 2015 and Contract 306-I-TO-14-00031 for September 23, 2014 to September 30, 2015 Report Number 3-000-17-032-R*

Issue: The cost of the Primary Risk Manager was in excess of the market rate and not deemed reasonable. \$139,481 was questioned as ineligible. This includes the related NICRA cost and Fixed fee as well.

Status: During our testing of Allowable Costs, Crowe did not identify instances in which costs incurred were considered to be unreasonable. This finding is not repeated.

Finding Section 5.3: Competitive bidding process was not followed when contracting a consultant

Report: *Audit of Costs Incurred in Afghanistan by Tetra Tech ARD Under USAID Contract 306-C-15-00005 for February 1, 2015 to September 30, 2015 and Contract 306-I-TO-14-00031 for September 23, 2014 to September 30, 2015 Report Number 3-000-17-032-R*

SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS
(Continued)

Issue: A competitive solicitation was not performed when contracting for consulting services. No documentation supporting competitive solicitation as required by the project contract and the contractors' policies were provided. Neither was a sole procurement document prepared at the time of contracting the consultant. \$10,119 in questioned costs resulted from this finding.

Status: During our testing of procurement, Crowe did not identify instances in which documentation supporting execution of competitive procedures was unavailable. This finding is not repeated.

Finding 2014-01: Allowable Costs: Foreign Currency Conversions

Report: *Audit of costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project for the Period September 30, 2009, through December 29, 2012, Report SIGAR 15-28-FA*

Issue: Finding 2014-01 identified \$17,626 in questioned costs based on the utilization of an incorrect exchange rate based on ARD's supporting documentation.

Status: During our testing of Allowable Costs, Crowe did not identify instances in which foreign currency translations were improperly calculated. This finding is not repeated.

Finding 2014-02: Procurement: Competitive Procedures and Reasonable Costs

Report: *Audit of costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project for the Period September 30, 2009, through December 29, 2012, Report SIGAR 15-28-FA*

Issue: Four instances were noted in which vendor and subcontractor selections resulting from procurement activities were not properly supported. Questioned costs totaled \$23,347.

Status: During our testing of procurement, Crowe did not identify instances in which documentation supporting execution of competitive procedures was unavailable. This finding is not repeated.

Finding 2014-03: Allowable Costs: Costs Incurred for Overtime and Saturday Pay

Report: *Audit of costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project for the Period September 30, 2009, through December 29, 2012, Report SIGAR 15-28-FA*

Issue: Wage payments included both overtime payments and payments for a sixth workday both of these types of payments were not allowed under the contract. Questioned costs totaled \$141,867.

Status: During our testing of Allowable Costs, Crowe did not identify instances in which employees were not compensated in accordance with the contract. This finding is not repeated.

SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS
(Continued)

Finding 2014-04: Allowable Costs: Equipment and Property Purchases and Disposition

Report: *Audit of costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project for the Period September 30, 2009, through December 29, 2012, Report SIGAR 15-28-FA*

Issue: Approval of equipment and property purchases and dispositions was not obtained from the contracting officers prior to purchase or disposition. \$95,207 in total questioned costs.

Status: During out testing for Allowable Costs, we did not identify equipment or property that had been purchased without prior approval. This finding is not repeated.

Finding 2014-08: Procurement: Subcontract Approvals

Report: *Audit of costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project for the Period September 30, 2009, through December 29, 2012, Report SIGAR 15-28-FA*

Issue: ARD charged USAID for subcontracts that exceeded the total amount of the subcontract \$52,036.

Status: During our testing of procurement, Crowe did not identify instances in which documentation costs incurred under a subcontract exceeded the authorized subcontract limit. This finding is not repeated.

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS



August 28, 2018

Bert Nuehring
Partner
Crowe LLP

Reference: a) ERussell/BStanley, Draft Audit Report, dated July 29, 2018

Subject: Tetra Tech ARD Management Response pertaining to referenced draft audit report for the Initiative to Strengthen Local Administration (ISLA) Project, Contract No. 306-C-15-00005,

Dear Mr. Nuehring,

Thank you for the opportunity to provide the Management Response for the subject audit report.

With respect to the one audit finding (2018-01 "Cash Payment Not Made Within 30 Days of Invoice to USAID), the report notes that one payment was made to Gender Resources Inc. (GRI) six days past the required payment period. The auditor recommends that ARD implement a process to monitor the timeliness of payments made to vendors and subcontractors.

Tetra Tech does not contest this finding and agrees to the importance of making timely payments to vendors and subcontractors. All vendor and subcontractor payments issued from the home office are managed through an online database called TetraLinx. This online system provides a seamless process by which vendor and subcontractor invoices are uploaded, approved and processed for payment within 30 days. While the delayed payment to GRI appears to have been an anomaly since no other vendor or subcontractor payments were noted as being delayed, Tetra Tech will look into the circumstances surrounding why this specific payment was delayed in order to mitigate this from happening again in the future.

Please do not hesitate to contact me at (802) 495-0550 or Brandon.stanley@tetrattech.com should you have any questions.

Regards,

DocuSigned by:

Brandon Stanley

Brandon Stanley

Director, Contracts Grants and Procurement
Tetra Tech

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SIGAR's Mission

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

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Public Affairs Officer

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