

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-100 Financial Audit

USAID's Afghanistan Municipal Strengthening
Program: Audit of Costs Incurred by
International City/County Management
Association



SEPTEMBER
2014

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On May 1, 2007, the U.S. Agency for International Development awarded the International City/County Management Association (ICMA) a cooperative agreement to implement the Afghanistan Municipal Strengthening Program. Under the program, ICMA sought to improve the delivery of public services in provincial capitals through such activities as public works and utility projects, city-to-city partnerships, and human capital development.

SIGAR's financial audit, performed by Williams Adley & Company-DC, LLP (Williams Adley), reviewed expenditures of \$25,124,306 from May 1, 2007, through August 31, 2010. Williams Adley (1) identified and reported on significant deficiencies or material weaknesses in ICMA's internal controls related to the cooperative agreement; (2) identified and reported on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determined and reported on whether ICMA had taken corrective action on prior findings and recommendations; and (4) expressed an opinion on the fair presentation of ICMA's Special Purpose Financial Statement. See Williams Adley's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of a contracted audit, SIGAR is required by auditing standards to provide oversight of the work performed. Accordingly, SIGAR reviewed Williams Adley's audit results and found them to be in accordance with generally accepted government auditing standards.

September 2014

USAID's Afghanistan Municipal Strengthening Program: Audit of Costs Incurred by International City/County Management Association

SIGAR 14-100-FA

WHAT THE AUDIT FOUND

Williams Adley & Company-DC, LLP (Williams Adley) identified five internal control deficiencies and five instances of noncompliance in auditing costs incurred by the International City/County Management Association (ICMA) in implementing the U.S. Agency for International Development's (USAID) Afghanistan Municipal Strengthening Program. Specifically, Williams Adley found that ICMA's internal control processes did not ensure the retention of sufficient supporting documentation for transactions related to the Other Direct Costs, Travel and Transportation, and Activities cost categories. This included USAID's approval of a security contract for more than \$1.4 million. Williams Adley also noted that ICMA's misunderstanding of applicable travel rules prompted it to improperly charge USAID more than \$40,000 in business class travel costs for seven travelers. Further, Williams Adley found that ICMA failed to enforce its own policies relative to competitive procurements related to municipal waste management equipment and a construction project in Asadabad, the capital of Kunar province.

As a result of these deficiencies and instances of noncompliance, Williams Adley identified \$2,056,308 in total questioned costs, comprised of \$1,951,122 in unsupported costs—costs for which inadequate supporting documentation was provided—and \$105,186 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Questioned Costs Total	Ineligible	Unsupported
Travel & Transportation	\$33,542	\$32,524	\$1,018
Other Direct Costs	\$1,584,509	\$0	\$1,584,509
Activities	\$55,033	\$53,473	\$1,560
Indirect Costs	\$383,224	\$19,189	\$364,035
Totals	\$2,056,308	\$105,186	\$1,951,122

Williams Adley identified five prior recommendations that could have had a material impact on ICMA's Special Purpose Financial Statement. It found that ICMA took corrective action on all five recommendations.

Williams Adley rendered a qualified opinion on ICMA's Special Purpose Financial Statement because of the material effects associated with more than \$2 million in questioned costs.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. **Determine the allowability of and recover, as appropriate, \$2,056,308 in questioned costs identified in the report.**
2. **Advise ICMA to address the report's five internal control findings.**
3. **Advise ICMA to address the report's five noncompliance findings.**



SIGAR

**Office of the Special Inspector General
for Afghanistan Reconstruction**

September 15, 2014

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development

Mr. William Hammink
Mission Director for Afghanistan
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by International City/County Management Association (ICMA) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Afghanistan Municipal Strengthening Program.¹ The audit, performed by Williams Adley & Company-DC, LLP, covered the period May 1, 2007, through August 31, 2010, and expenditures of \$25,124,306. Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

- 1. Determine the allowability of and recover, as appropriate, \$2,056,308 in questioned costs identified in the report.**
- 2. Advise ICMA to address the report's five internal control findings.**
- 3. Advise ICMA to address the report's five noncompliance findings.**

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

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-031)

¹ USAID/Afghanistan cooperative agreement No. 306-A-00-07-00514-00.

**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN
RECONSTRUCTION**

**FINANCIAL AUDIT OF COSTS
INCURRED BY
ICMA**

**Cooperative Agreement:
306-A-00-07-00514-00**

May 1, 2007 to August 31, 2010

Submitted by



May 23, 2014

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Transmittal Letter

August 6, 2014

Leadership Team
International City/County Management Association (ICMA)
Washington, DC

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We hereby provide to you our final report, which reflects results from the procedures we completed during the course of our audit of the International City/County Management Association's ("ICMA") cooperative agreement number 306-A-00-07-00514-00 with the United States Agency for International Development (USAID) for its Afghanistan Municipal Strengthening Program (AMSP).

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

On May 23, 2014, we provided SIGAR a draft report reflecting our audit procedures and results. ICMA received a copy of the report on June 26, 2014 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and ICMA. ICMA's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of ICMA's AMSP cooperative agreement.

Sincerely,

A handwritten signature in black ink that reads 'Charbet M. Duckett'.

Charbet M. Duckett, CPA, CGFM
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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Summary

Background

The United States Agency for International Development (USAID) provides funding to grant recipients for services related to reconstruction activities in Afghanistan. Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 ([P.L. 110-181](#)), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. As a result, USAID funded activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

On May 1, 2007, USAID awarded \$14,000,000 to International City/County Management Association's ("ICMA") under cooperative agreement number 306-A-00-07-00514-00 to implement a municipal strengthening program (AMSP) in Afghanistan. The award and subsequent modifications which increased the awarded amount to \$24,954,276, were executed to improve the delivery of services in provincial capitals and provide technical assistance and capacity building through the engagement of various populations in Afghanistan municipalities in economic, political and social activities. ICMA's AMSP responds to the following USAID's Strategic Objectives and Intermediate Results:

- USAID Afghanistan's Strategic Objective 6: Democratic Government with Broad Citizen Participation, specifically its desire to:
 - Strengthen Institutions for Good Governance through improving delivery of public services, and
 - Support Democratic Local Government through capacity building and training of the workforce of provincial and municipality governments.

Work Performed

Williams Adley and Company-DC, LLP (Williams Adley) was contracted by SIGAR to conduct a special purpose financial audit of ICMA's AMSP cooperative agreement 306-A-00-07-00514-00 Special Purpose Financial Statement.

Objectives

The objectives of the audit are to:

1. Express an opinion on whether the Special Purpose Financial Statement for the award 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 generally accepted

accounting principles (GAAP) or other comprehensive basis of accounting (OCBOA).

2. Evaluate and obtain a sufficient understanding of ICMA's internal controls related to the USAID-funded program, assess control risk, and identify significant deficiencies including material weaknesses.
3. Perform tests to determine whether ICMA complied, in all material respects, with award 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.
4. Determine and report on whether ICMA 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.

Scope

The scope of work in performing the engagement services related to the project in Afghanistan under cooperative agreement 306-A-00-07-00514-00 was to:

1. Review the Special Purpose Financial Statement and related Notes to the Statement that are the responsibility of ICMA's management. We reviewed internal controls related to the financial information for the audit period, including financial management systems controls and edit checks, procedural controls (documentation receipt, validation, reviews, approval levels, recordation, reconciliation, separation of duties, signatory requirements, etc.), and internal/external audits of project activities and the impact of corrective actions, if any.
2. Perform compliance testing including, but not limited to, activities allowed or unallowed; allowable costs/cost principles; cost determination/indirect costs; cash management; eligibility; equipment and real property management; matching, level of effort and earmarking; period of availability of Federal funds; procurement and suspension and debarment; program income; reporting; and sub-recipient selection and monitoring.
3. Evaluate and determine if ICMA has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the audited Special Purpose Financial Statement.

We looked at transactions for the period from May 1, 2007 through August 31, 2010 and subsequent events and information related to the findings and questioned amounts for the audit period, and we expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

Methodology

To meet the audit objectives, Williams Adley identified the applicable criteria needed to test the Special Purpose Statement and supporting financial records and documentation through a review of the cooperative agreement and modifications thereto. The criteria included OMB circulars; USAID automated directives system guidelines; and regulations under 22 CFR, Part 226, and cost principles for grant funds under 2 CFR, Part 230 (OMB Circular A-122). In addition, Williams Adley reviewed ICMA's organizational charts and reporting hierarchy, policies and procedures, and the status of prior audit report findings to gain an understanding of the normal procedures and system of internal controls established by ICMA to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Williams Adley used both random and risk-based sampling techniques to select expenditures and payroll samples to test for allowability of incurred costs, and we reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards. We requested and received supporting documentation for compliance evaluation of incurred costs. We reviewed submitted financial status reports for accuracy and compliance with reporting requirements. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in compliance with the negotiated indirect cost rate agreement.

The financial records for the sole sub-recipient of the AMSP Cooperative Agreement were located in Ahmedabad, India. As a result, transaction testing in support of sub-recipient costs incurred was performed on electronic copies of the documents with certificate signed by the sub-recipient's Director stating that those are true copies of the primary documents.

Summary of Results

Williams Adley issued a qualified opinion on ICMA's Special Purpose Financial Statement (the Statement). Williams Adley also reported on ICMA's internal controls and compliance regarding the Statement. Upon completion of our audit procedures, Williams Adley identified five findings. Three findings were considered material weaknesses in internal control and material instances of noncompliance. Two findings were considered significant deficiencies and instances of noncompliance. Where internal control and compliance findings pertained to the same matter, we consolidated them into a single finding. Other insignificant issues were reported in a separate management letter.

A total of \$2,056,308 was questioned. The questioned amounts are summarized in the following table:

Table 1: Summary of Questioned Costs¹

Finding Number	Issue	Questioned Amount	Cumulative Questioned Amounts
2014-01	Unsupported Questioned Costs	\$1,951,122	\$1,951,122
2014-02	Ineligible Questioned Costs	\$40,344	\$1,991,466
2014-03	Non-competitive procurement for two program related activities	\$64,842	\$2,056,308

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

Summary of Prior Audit Reports

Prior audits, assessments or reviews of ICMA that we considered applicable to the scope of our work were obtained and read to ensure that there were no significant deficiencies or material weaknesses noted. We obtained and reviewed ICMA's A-133 Audit Reports for FY 2007 through FY 2012. For any significant deficiencies or material weaknesses affecting the cooperative agreement, we performed test work to ensure proper correction of any significant deficiencies or material weaknesses that impacted the project. ICMA took corrective action on the five prior recommendations that could have a material impact on the Statement.

- FY 2007 and 2008: Two prior findings were noted during these periods that indicated that "Certain reports were noted that were filed after the required due date".

Corrective Action: The process for submission of reports was changed in 2010, when it was decided by ICMA to eliminate an additional step in the process and make the submission of quarterly reports the responsibility of the Finance staff, instead of the responsibility of program staff. No additional findings related to untimely submission of financial reports were identified by the auditors in the 2009-2012 OMB A-133 reports.

In a separate management letter, we communicated to ICMA that two (2) reports were untimely submitted: one SF 272 for the second quarter of 2008 and a FFR 425 for the last quarter of 2009. However, we determined that ICMA did take adequate corrective action to address the A-133 findings based on our review of

¹ Includes indirect costs. Refer to Schedule of Findings and Questioned Costs for details.

the revised procedures, our testing of financial reporting and as evidenced by the lack of a related finding in later years.

- FY 2007, 2008, 2009: A Three prior findings were stated that “There was no documentation indicating that the Association had determined that contractors were eligible to provide services to the federal government”.

Corrective Action: ICMA implemented a new process in its Field Operations Manual, effective 2010 to address the verification of vendors and contracts against relevant databases for procurements in excess of \$5,000. In addition, ICMA revised its record retention policy to extend the period for which cooperative agreements supporting documentation is stored. The period is now 4 years.

During our testing of contracts and sub-agreements, we determined that ICMA did not provide documentation to support that vetting efforts were conducted prior to awarding forty-seven (47) contracts over \$25,000 during the performance period, May 1, 2007 to August 31, 2010. See Finding 2014-04. However, we determined that ICMA did take adequate corrective action to address the A-133 findings as evidenced by the change in practice, and lack of a related finding in later years.

Summary of Management Comments

In responding to the draft audit report (see Attachment A), ICMA management did not agree with findings 2014-01, 2014-02 and 2014-03, contending that questioned costs should be removed from the Audit Report. Management stated that they provided adequate support for the majority of questioned unsupported costs incurred, as well as providing cost reasonableness support and proof of appropriate prior approvals for the ineligible questioned costs. ICMA management did agree with findings 2014-04 and 2014-05. The auditor responded to management's comments as detailed in Attachment B to this Audit Report.

Attachments

The auditor's reports are supplemented by 2 attachments:

Attachment A contains ICMA's official management response to the draft report.
Attachment B contains the auditor response to management comments.



Independent Auditor's Report on the Special Purpose Financial Statement

Leadership Team
International City/County Management Association (ICMA)
Washington, DC

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We have audited the Special Purpose Financial Statement (the "Statement") of the International City/County Management Association ("ICMA") cooperative agreement number 306-A-00-07-00514-00 for the period of May 1, 2007 to August 31, 2010, and the related Notes to the Statement. The special purpose financial statement is the responsibility of ICMA's management. Our responsibility is to express an opinion on the special purpose financial statement based on our audit.

We conducted our audit of the special purpose financial statement in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement was prepared to present the revenues and cost incurred of ICMA pursuant the cooperative agreement number 306-A-00-07-00514-00 described in Note 1, and is not intended to be a complete presentation of ICMA's assets, liabilities, revenues and expenses.

The results of our tests disclosed the following material questioned costs as detailed in the special purpose financial statement: (1) \$105,186 in costs that are questioned because reasonableness could not be determined; and (2) \$1,951,122 in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

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In our opinion, except for the effects of the matters described above, the Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and items and technical assistance directly procured by USAID for the indicated period in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued reports dated May 16, 2014, on our consideration of ICMA's internal controls and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

This report is intended for the information of ICMA, the United States Agency for International Development and 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.

Williams, Ardley & Company - DC, LLP

May 16, 2014
Washington, D.C.

International City/County Management Association (ICMA)

Special Purpose Financial Statement

Associate Cooperative Agreement No. 306-A-00-07-00514-00

United States Agency for International Development

For the Period May 1, 2007 to August 31, 2010

	Total Budget	Actual	Questioned Amounts		Notes
			Ineligible	Unsupported	
Revenues					
Cooperative Agreement 306-A-00-07-000514	\$24,954,276	\$24,954,276			4
Total Revenue	<u>\$24,954,276</u>	<u>\$24,954,276</u>			
Costs Incurred					
Personnel	\$1,275,030	\$1,255,182			
Consultants	371,754	428,598			
Travel and Transportation	681,424	1,298,365	32,524	1,018	A
Other Direct Costs	9,115,048	9,239,246		1,584,509	B
Allowances	821,227	1,063,420			
Activities	6,599,344	6,261,281	53,473	1,560	C
Total Direct Costs	<u>\$18,863,827</u>	<u>\$19,546,092</u>	<u>85,997</u>	<u>1,587,087</u>	
Indirect Charges	6,090,449	5,578,214	19,189	364,035	A,B,C
Total Costs Incurred	<u>\$24,954,276</u>	<u>\$ 25,124,306</u>	<u>\$105,186</u>	<u>\$1,951,122</u>	
Outstanding Fund Balance (deficit)	<u>\$ -0-</u>	<u>\$ (170,030)</u>			6

The Notes to the Special Purpose Financial Statement are an Integral Part of this Statement

Notes to the Special Purpose Financial Statement²

For the Period May 1, 2007 through August 31, 2010

Note 1. Status and Operation

Founded in 1914, the International City/County Management Association (ICMA) advances professional local government worldwide. ICMA is a 501(c)(3) nonprofit organization that offers a wide range of services to its members and the local government community. Their mission and vision is to create excellence in local governance by developing and fostering professional management to build sustainable communities that improve people's lives worldwide. ICMA provides member support, publications, data and information, peer and results-oriented assistance, and training and professional development to nearly 9,000 city, town, and county experts and other individuals and organizations throughout the world.

On May 1, 2007, USAID awarded \$14,000,000 to ICMA under Cooperative Agreement No. 306-A-00-07-00514-00 to implement a municipal strengthening program in Afghanistan (AMSP). The award and subsequent modifications, which increased the awarded amount to \$24,954,276, were executed to improve the delivery of services in provincial capitals and provide technical assistance and capacity building through the engagement of various populations in Afghanistan municipalities in economic, political and social activities.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under the aforementioned cooperative agreement for the period May 1, 2007 through August 31, 2010. The information in this Statement is presented in accordance with requirements specified by USAID and is specific to the aforementioned Cooperative Agreement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements

The Statement includes costs incurred under Cooperative Agreement No. 306-A-00-07-000514 for the Afghanistan Municipal Strengthening Program for the period May 1, 2007 through August 31, 2010. Because the Statement presents only a selected portion of the operations of ICMA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of ICMA.

² Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of ICMA's management.

Basis of Accounting

Expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Such expenditures were reported on the Statement on the accrual basis whereby revenue is recognized when earned and expenses are recognized when incurred.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, ICMA applies the actual exchange rate of U.S. dollars exchanged to Afghanis (the local currency) when the transaction is recorded in ICMA's books. The exchange rate varied from 45.76 to 51.91 AFN/USD during the period under audit.

Note 4. Revenues

Revenues on the Statement represent amounts reimbursed to ICMA by USAID for eligible costs incurred under the cooperative agreement during its period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final budget approved by USAID as a component of the eighth modification to the cooperative agreement dated October 19, 2009.

Note 6. Fund Balance

The fund balance presented on the Statement represents the difference between revenues recognized and costs incurred in the course of implementing the cooperative agreement. The negative fund balance of \$170,030 consists of costs incurred in connection with and within the period of performance of the project in excess of the total obligated amount. These costs, paid by ICMA unrestricted funds, were necessary in order to properly complete and close out the award but were not be billed to USAID.

Note 7. Status of Invoicing to USAID

The Statement, as presented, reflects all invoices submitted to and paid by USAID as of May 9, 2014. The cooperative agreement has been closed, and the final invoice has been rendered to and paid by USAID.

Note 8. Currency

All amounts presented are shown in U.S. dollars – the reporting currency of ICMA.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the May 1, 2007, through August 31, 2010, period of performance of the cooperative agreement. Management has performed this analysis through May 16, 2014 – the date the Statement was available to be issued – and identified no issues or matters that would materially alter the Special Purpose Financial Statement as presented.

Notes to the Questioned Amounts Presented on the Special Purpose Financial Statement³

Note A: Questioned Costs – Travel and Transportation

Finding 2014-01 questions \$1,018 in travel related costs and \$241 in ICMA indirect costs ⁴for transactions that were missing supporting documents or the supporting documents did not agree with the amount paid. As a result, we questioned the transactions as unsupported costs.

Finding 2014-02 questions \$32,524 in travel related costs and \$7,820 in ICMA indirect costs for business travel transactions with costs for which evidence of cost reasonableness could not be determined. As a result, these incurred costs were deemed ineligible.

Note B: Questioned Costs – Other Direct Costs

Finding 2014-01 questions \$1,584,509 in other direct costs and \$363,434 in ICMA indirect costs for transactions that were missing supporting documents or the supporting documents did not agree with the amount paid. Out of the \$1,584,509, \$1,432,645 pertains to security related expenses for which ICMA could not provide the required USAID approval for the security subcontractor and \$128,041 in local payroll transactions for which supporting documentation was missing. In addition, \$23,823 in other direct costs are being questioned because no supporting documentation was provided. As a result, we questioned the transactions as unsupported costs.

Note C: Questioned Costs – Activities

Finding 2014-01 questions \$1,560 for an employee related expense and \$360 in ICMA indirect costs ⁵ for a transaction that was missing supporting documents. As a result, we questioned the transactions as unsupported costs.

Finding 2014-03 questions \$53,473 for program related expenses that were not competitively procured and \$11,369 in ICMA indirect costs for transactions that was missing supporting documents. As a result, these incurred costs were deemed ineligible.

³ Alphabetic notes to the questioned amounts presented on the special purpose financial statement were developed by and are the responsibility of the auditor.

⁴ Questioned indirect costs were calculated by applying the applicable Negotiated Indirect Cost Rates to the questioned costs by category by ICMA fiscal year. The rates used ranged from 14.73% to 30.50%.



Independent Auditor's Report on Internal Control

Leadership Team
International City/County Management Association (ICMA)
Washington, DC

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We have audited the Special Purpose Financial Statement (Fund Accountability Statement or the "Statement") of the International City/County Management Association ("ICMA") cooperative agreement number 306-A-00-07-00514-00 for the period of May 1, 2007 to August 31, 2010, and have issued our report thereon dated May 16, 2014.

We conducted our audit in accordance with U.S. 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 special purpose financial statement is free of material misstatement.

The management of ICMA is responsible for establishing and maintaining 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 agreements; and transactions are recorded properly to permit the preparation of the special purpose financial statement in conformity with the basis of accounting described in Note 1 to the special purpose financial 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 special purpose financial statement for the period of May 1, 2007 through August 31, 2010 we obtained an understanding of ICMA's internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). 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 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Amounts to be material weaknesses: Finding 2014-01, 2014-2 and 2014-4. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Amounts to be significant deficiencies: Finding 2014-03 and Finding 2014-05.

We noted certain matters involving internal control and its operation that we have reported to the management of ICMA in a separated letter dated May 16, 2014.

This report is intended solely for the information of ICMA, United States Agency for International Development and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. 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. However, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

Williams, Adley & Company - DC, LLP

May 16, 2014
Washington, D.C.



Independent Auditor's Report on Compliance

Leadership Team
International City/County Management Association (ICMA)
Washington, DC

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We have audited the Special Purpose Financial Statement (Fund Accountability Statement or the "Statement") of the International City/County Management Association ("ICMA") cooperative agreement number 306-A-00-07-00514-00 for the period of May 1, 2007 to August 31, 2010, and have issued our report thereon dated May 16, 2014.

We conducted our audit in accordance with U.S. 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

Compliance with agreement terms and laws and regulations applicable to ICMA is the responsibility of ICMA's management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of ICMA's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our compliance tests disclosed the following material instances of noncompliance, the effects of which are shown as questioned amounts in the accompanying Schedule of Findings and Questioned Amounts as: Findings 2014-01, 2014-2, and 2014-4.

We considered these material instances of noncompliance in forming our opinion on whether ICMA's Statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 to the Statement, and this report does not affect our report on the Schedule dated May 16, 2014.

This report is intended solely for the information of ICMA, United States Agency for International Development and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. 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. However, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

Williams, Adley & Company-DC, LLP

May 16, 2014
Washington, D.C.

Schedule of Findings and Questioned Amounts

Finding 2014-01: Unsupported Questioned Costs (Material Non-Compliance and Material Weakness)

Condition: ICMA could not provide sufficient supporting documentation for the following transactions in the Other Direct Costs, Travel and Transportation, and Activities line items of the Special Purpose Financial Statement:

Table 2: Questioned Costs related to Other Direct Costs

Item Number ⁵	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
97	No supporting documentation was provided for war risk insurance expense	\$23,823	\$5,498	\$29,321
45, 70, 79, 100, 104, 110, 119, 143	Local payroll transactions for which supporting documents was missing (timesheets and payroll worksheets)	\$128,041	\$25,857	\$153,898
1, 2, 10, 12 13, 16, 17, 33, 47, 68, 72, 73, 74, 77, 78, 81, 83, 84, 85, 86, 88, 90, 94	Lack of USAID approval for the Garda World contract for security services provided	\$1,432,645	\$332,079	\$1,764,724
Totals		\$1,584,509	\$363,434	\$1,947,943

Table 3: Questioned Costs related to Travel and Transportation

Item Number	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
12, 24, 48,	Consultant and Staff travel transactions for which supporting documentation was not provided (travel authorizations).	\$1,018	\$241	\$1,259
Total		\$1,018	\$241	\$1,259

⁵ Represents a sequential number assigned to sample items. Attachment B presents a detail of these transactions.

Table 4: Questioned Costs related to Activities

Item Number	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
121	Subcontractor transaction for which contract and timesheet was missing	\$1,560	\$360	\$1,920
Total		\$1,560	\$360	\$1,920

Table 5: Summary of Unsupported Questioned Costs

Condition	Questioned Cost	Indirect Costs	Total Questioned Costs
Other Direct Costs	\$1,584,509	\$363,434	\$1,947,943
Travel	\$1,018	\$241	\$1,259
Activities	\$1,560	\$360	\$1,920
Total	\$1,587,087	\$364,035	\$1,951,122

Criteria: 22 CFR 226.53, Retention and Access Requirements for Records, states that “financial reports, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID”.

Additionally, 2 CFR 230 requires that salaries and wages are supported by time records or timesheets documenting the total hours worked each day reflective on an after-the-fact determination of actual activity and coinciding with one or more pay periods.

Also, according to Cooperative Agreement 306-A-00-07-00514-00, Section A.14 Special Provisions, All provisions of 22 CFR 226 are applicable to the recipient. As per 22 CFR 226.25 (c) (8), recipients must request prior approval from the USAID Agreement Officer for the award, sub-award, transfer or contracting out of any work under an award, unless described in the application.

In addition, ICMA’s Annex 1 to the procurement manual, titled Procurement Categories, Thresholds and Procedures for Services and Commodities, requires the donor’s Contract or Agreement officer approval for procurements of more than \$100,000 for in country and off shore procurements under the AMSP program.

Cause: ICMA lacked a storage implementation process in their field operations to ensure that all costs reimbursed were adequately stored in an organized manner and

were readily available for future references, resulting in ICMA Headquarters employees' inability to locate documentation to support costs incurred and reimbursed by USAID.

Effect: The absence of supporting documentation resulted in \$1,951,122 in questioned costs incurred and reimbursed. Further, without documentation that could justify costs incurred and reimbursed the risk of overcharging the U.S. Government could increase. It may also create opportunities and may also limit the detection, prevention or detection of fraud, waste, and abuse of government funds.

Recommendation: We recommend that ICMA:

- a) provide USAID with records that clearly support the \$1,951,122 in questioned costs presented above that were charged to USAID/Afghanistan;
- b) reimburse USAID/Afghanistan for those amounts for which supporting documentation could not be provided; and
- c) provide internal training to its personnel (at headquarters and field offices) to emphasize the importance of record retention.

Finding 2014-02: Ineligible Questioned Costs (Material Non-Compliance and Material Weakness)

Condition: Ineligible costs amounting to \$40,344 were incurred by ICMA related to international business class travel to and from Afghanistan.

Table 6: Questioned Costs related to Travel and Transportation

Item Number	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
44, 46, 54, 58, 68, 70, 73	Business class travel for, 7 travelers, in excess of 14 hours with inclusion of rest stop without reasonable justification or USAID approval.	\$32,524	\$7,820	\$40,344
Totals		\$32,524	\$7,820	\$40,344

Also, ICMA's employee agreements include a clause that states ICMA will pay for business class travel.

Criteria: OMB Circular A-122, Attachment B, Selected Items of Cost (51), Travel Costs, states that in the absence of an acceptable, written non-profit organization policy regarding travel costs, the provisions of the Administrator of General Services

provisions shall apply. The General Services Administration's (GSA) Federal Travel Regulation §301-10.122 specifies that for both domestic and international travel, coach class accommodations must be used. Section §301-10.123 of the same regulation outlines a set of conditions, that if present, are sufficient to justify the use of business class travel. One of them, §301-10.123(b)(6) allows business class travel when the scheduled flight time is in excess of 14 hours, as long as the business class travel is in accordance to §301-10.125.

Further, GSA's Travel Regulation §301-10.125 states that when the 14-hour rule is used to travel in business class, the traveler will not be eligible for a rest stop en route to his duty site.

Cause: ICMA did not fully understand the business class travel rules applicable to flights in excess of 14 hours and did not realize that they were in violation of the Federal Travel Regulations.

Effect: ICMA has incurred expenses that were not reasonable and ineligible per Federal Travel Regulations and therefore, resulting in the use of funds that could have been put to better use elsewhere in the program. As a result, we questioned the eligibility of \$40,344 in incurred costs.

Recommendation: We recommend that ICMA reimburse USAID Afghanistan for those ineligible costs of \$40,344 or provide USAID's authorization for the exception to the Federal travel regulation.

We also recommend that ICMA revise their policies and procedures to be in compliance with Federal Travel Regulations related to international travel and business travel utilization.

Finding 2014-03: Non-competitive procurement for two program related activities (Non-compliance and Significant Deficiency)

Condition: ICMA failed to enforce their policies and procedures in two (2) program related activities for which the original contract was substantially modified. Bid procedures were performed for each original contract. However, both contracts were substantially modified and competitive procurement for the additional work was not performed as required. Although, ICMA has written procedures in this area, the policies do not address when exceptions to this policy are allowed and the necessary documentation of such actions. Finally, no documentation was provided indicating that a proper approval to use the same supplier was granted by ICMA management.

Project/ Contract Number	Issue	Questioned Amount ⁶
Municipal Waste Management/ AMSP/MWM Equip - 06/Oct/2009	<ul style="list-style-type: none"> - Initial fixed priced Purchase Order (PO) for \$34,955 was awarded in October 2009 to Donya Afghanistan Logistics and Supply Service. As part of this PO ten (10) Garbage motor tricycles were to be provided by the vendor at a price of \$1,730 per unit. - In January 2010 the PO was amended to add eight (8) additional units to the order and increase the unit price to \$2,132. ICMA's technical team requested changes to the front cabin that included a wind screen, mirrors and headlights. This substantially changed the product that was initially requested from the vendors who participated in the initial offering. These changes increased the original PO with Donya (vendor) from \$34,955 to \$56,031. 	\$21,076
Indirect Cost		\$4,864
Asadabad Coffee House Construction/ AMSP/Asadabad. Coffee House- 11/January/2010	<ul style="list-style-type: none"> - Initial fixed priced contract was awarded to Sahar Abbasi Construction Company (SACC) on February 2010 in the amount of \$59,557 for the construction of a coffee house in Asadabad. - In March 2010 the contract was amended in the amount of \$24,120 to fund the construction of a brick wall around the coffee house as a result of the original construction site being changed near a flood area (Kunar River) at the request of the Asadabad Mayor. The contract between ICMA and SACC (vendor) is now valued at \$83,677. - In April 2010 the contract was modified again in the amount of \$5,418 to account for the extension of the aforementioned brick wall at the request of the elders of Yargul Village. The extension of the wall, by 15mm, would now protect a girl's school and the coffee house from floods due to their proximity to the Kunar River. The contract is now valued at \$89,095. - In June 2010 the contract was amended for the last time in the amount of \$2,869. Additional materials were needed to increase the depth of the foundation for the construction due to stability issues with the land. The value of the contract is now \$91,954. 	\$32,397
Indirect Cost		\$6,505
Direct Costs Subtotal		\$53,473
Indirect Costs Subtotal		\$11,369
Total		\$64,842

Criteria: ICMA's Procurement Manual for the AMSP Program, section 10.2.1, states that, "once a contract has been awarded and signed, it is only permitted to amend the contract if the contract provisions call for modification, or if additional related goods, services, and/or works are to be rendered by the same supplier in furtherance to the execution of an original contract. Contract amendments are not appropriate for substantial amendments to the scope of the goods, services or works to be delivered. All other situations call for a new competitive selection of a supplier."

⁶ Questioned cost amount represents the difference between the original contract awarded and the value of the contract after the substantial modifications. The associated indirect costs were separately calculated using the applicable Negotiated Indirect Costs Rates.

22 CFR 226.43 states that all procurement transactions, including these instances of substantial modifications to contracts that should have been treated as a new competitive selection of a supplier, should be conducted in a manner to provide, to the extent practical, open and free competition.

Cause: ICMA indicated that due to the proximity of the end of the period of performance for the cooperative agreement, they decided to select the same vendor who was performing under the original contract and modify their arrangement to include the additional work and goods necessary prior to closure of the AMSP program. Also, the timeline encountered during the construction did not allow for rebidding the additional work.

Effect: The lack of competition could allow vendors to inflate the price of the additional request to recover lost income in the original contract. The absence of documentation showing that other vendors were evaluated as part of the modification of the original contracts, limited us in determining that the costs charged to USAID above the original, competitively procured contract were reasonable for the goods and services provided.

Recommendation: We recommend that ICMA reimburse USAID for the amount of \$64,842, the cost of substantial improvements, which were not subject to competition. In addition, ICMA should revise their policies and procedures to obtain approval from the funding agency prior to making a sole source award for substantial amendments to the scope of the goods, services, or works to be delivered under a contract.

Finding 2014-04: Vetting Sub-awards and Subcontracts (Material non-Compliance, Material Weakness)

Condition: ICMA was unable to provide supporting documentation for vetting efforts conducted prior to awarding forty-seven (47) contracts over \$25,000 during the performance period, May 1, 2007 through August 31, 2010. In 2014, ICMA properly documented its vetting of contractors. None of the contractors and the sole sub-grantee appeared on the lists affiliated with prohibited parties.

In 2010 ICMA made changes to its Field Operations Manual to ensure that adequate vetting is performed and documented for procurements in excess of \$5,000 in a timely manner.

Criteria: Cooperative Agreement No. 306-A-00-07-00514, includes as a special provision, Executive Order on Terrorism Financing (Feb 2002), which states that U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the responsibility of the recipient to ensure compliance with these Executive Orders and laws. In order to ensure compliance with E.O. 13224 and related requirements, all awardees are expected to conduct their own review of Non-US Parties competing for contracts and document

their efforts.

In addition, 22 CFR 226.53 (b) states that financial records, supporting documents, statistical records and all other records pertinent to an award shall be retained for a period of three (3) years from the date of submission of the final expenditure report.

Cause: Up until 2010 the ICMA field office manual did not require that vetting be performed nor that vetting be documented in the contract files. Also, ICMA lacked a contract checklist to assist the contracting personnel in ensuring that all required procedures had been performed and were documented.

Effect: Not having developed and implemented proper vetting procedures increased the risk that ICMA could enter into contracts with parties excluded from doing business with the U.S. Government that may have ties to terrorist organizations.

Recommendation: We recommend that ICMA maintain in the contractor and subcontractor files supporting documentation to demonstrate that ICMA did verify all contractors and sub-grantee under the award to provide assurance to USAID that ICMA has complied with the Executive Order on Terrorism Financing.

Finding 2014-05: Improper Accounting Procedures (Non-compliance and Significant Deficiency)

Condition: On November 18, 2008 ICMA modified their contract with Garda World to provide security services for two ICMA programs, the Afghanistan Municipal Strengthening Program (AMSP) and the Commercialization of Afghanistan Water and Sanitation Activity (CAWSA). November 2008 to August 2010, as payments were made, the full expense was initially recorded to AMSP. Periodically, the CAWSA program reimbursed the AMSP at a rate of \$5,000 per month. The expenses recorded in the AMSP general ledger were reduced by the payment. However, the timing of the payments affected the accuracy of financial reports for three of seven quarterly periods between November 2008 and August 2010. Finally, the security costs allocation basis used to share security cost between the two programs was not supported.

Criteria: According to 22 CFR 226.21, a recipients financial management system shall provide for accurate, current and complete disclosure of financial results of each federally-sponsored project or program in accordance with the reporting requirements of 22 CFR 226.52. In addition, the recipients' financial management system shall provide for records that identify adequately the source and application of funds for federally-sponsored activities. Those records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

Cause: ICMA did not have written policies and procedures or appropriate controls in

place to ensure that shared program expenses were properly recorded in the accounting system at the time of payment. Also, the CAWSA budget for security cost was based on only the incremental costs not on the appropriate sharing of expenses.

Effect: The AMSP expenses on the federal financial reports were overstated throughout the quarters until the adjustment occurred.

Recommendation: We recommend that ICMA develop and implement written policies and procedures and controls to ensure that shared program expenses are recorded to the correct program at the time of payment/expensing. Also, we recommend that ICMA provide to USAID supporting documentation to support the basis used for the allocation of security costs between these two programs.

Attachment A – Management Response



July 18, 2014

Williams, Adley & Company-DC, LLP
1030 15th Street, N.W., Suite 350 West
Washington, DC 20005

RE: Special Inspector General for Afghanistan
Reconstruction Financial Audit of Costs Incurred by
International City/County Management Association under
Cooperative Agreement No. 306-A-00-07-00514-00
For the Period May 1, 2007 to August 31, 2010

Ladies and Gentlemen:

The International City/County Management Association (ICMA) appreciates the opportunity to respond to the draft Financial Audit of Costs Incurred under the Afghanistan Municipal Strengthening Program (AMSP), Cooperative Agreement No. 306-A-00-07-00514-00, prepared by Williams, Adley & Company-DC, LLP under the direction of Special Inspector General for Afghanistan Reconstruction (SIGAR).

ICMA is a 100-year-old nonprofit professional association founded on the key principles of ethical behavior and good governance. Since 1989, ICMA has been a USAID implementing partner carrying out the flagship CityLinks program, among many other projects, which has leveraged the expertise of staff from dozens of U.S. cities across the country in support of the U.S. foreign assistance program. ICMA members, for more than 25 years, have been providing pro-bono technical assistance to local government officials in some 60 countries under USAID-funded projects. AMSP was the first USAID initiative to address the critical need for local government capacity building in Afghanistan. AMSP demonstrated the value of strengthening local government both in terms of furthering local economic development and increasing stability as mayors and municipal staff began to appreciate the importance of engaging with and responding to its citizens. AMSP's steady success built upon itself as USAID repeatedly grew the program from \$3 million to almost \$25 million and from a focus only on Kabul to 11 different municipalities.

Through targeted technical assistance and training, these municipalities increased their capacity in sanitation management, road maintenance, financial management, procurement, and other areas of municipal management. Additionally, AMSP produced a comprehensive municipal governance handbook that ensured that the knowledge developed and learned could be shared with others. AMSP developed digitized municipal maps and participatory on-the-ground analyses for the first time in Afghanistan to help municipalities identify, plan and budget for priority economic infrastructure investments.

The AMSP approach emphasized ‘learning by doing’ through on-the-job training and hands-on project execution for both the municipal leadership and local private sector collaborators in municipal development and management system strengthening. Embedded Afghan staff in municipalities, trained through training-of-trainer techniques, worked on the job with municipal and business leaders, senior administrators, local NGOs and citizen groups to improve understanding skills and facilitate actual experience in the application of sound municipal service delivery and management practices.

The technical approaches and development strategies established under AMSP provided the foundational underpinnings for the subsequent nationwide sub-national projects designed and funded by USAID, including RAMP UP and SIKA. ICMA continued to play a major technical role in both of those programs, as well as other USAID/Afghanistan projects involving decentralization and devolution of government authority, e.g., CAWSA and CBCMP. Unquestionably, the ICMA AMSP legacy made a significant and ongoing contribution to the USAID program and to the people of Afghanistan.

ICMA’s response to each finding identified in the report is presented below.

Finding 2014-01: Unsupported Questioned Costs

Williams, Adley & Company-DC, LLP Finding: ICMA could not provide sufficient supporting documentation for the following transactions in the Other Direct Costs, Travel and Transportation, and Activities line items of the Special Purpose Financial Statement:

Table 2: Questioned Costs related to Other Direct Costs

Item Number ^a	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
97	No supporting documentation was provided for war risk insurance expense	\$23,823	\$5,498	\$29,321
45, 59, 70, 79, 100, 104, 110, 119, 143	Local payroll transactions for which supporting documents was missing (timesheets and payroll worksheets)	\$130,641	\$26,486	\$157,127
1, 2, 10, 12 13, 16, 17, 33, 47, 68, 72, 73, 74, 77, 78, 81, 83, 84, 85, 86, 88, 90, 94	Lack of USAID approval for the Garda World contract for security services provided	\$1,432,645	\$332,079	\$1,764,724
Totals		\$1,587,109	\$364,063	\$1,951,172

Table 3: Questioned Costs related to Travel and Transportation

Item Number	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
12, 24, 44, 46, 48, 52	Consultant and Staff travel transactions for which supporting documentation was not provided (travel authorizations).	\$2,158	\$504	\$2,662
Total		\$2,158	\$504	\$2,662

Table 4: Questioned Costs related to Activities

Item Number	Condition	Questioned Costs	Indirect Costs	Total Questioned Costs
121	Subcontractor transaction for which contract and timesheet was missing	\$1,560	\$360	\$1,920
130	No supporting documentation was provided for a non capitalizable software expense.	\$415	\$96	\$511
Total		\$1,975	\$456	\$2,431

Williams, Adley & Company-DC, LLP Recommendation: We recommend that ICMA:

- provide USAID with records that clearly support the \$1,956,265 in questioned costs presented above that were charged to USAID/Afghanistan;
- reimburse USAID/Afghanistan for those amounts for which supporting documentation could not be provided; and
- provide internal training to its personnel (at headquarters and field offices) to emphasize the importance of record retention.

ICMA response: We do not concur with this finding and offer the following as a response.

Williams, Adley & Company-DC, LLP concluded that "ICMA lacked a storage implementation process in their field operations to ensure that all costs reimbursed were adequately stored in an organized manner and were readily available for future references..." ICMA disagrees with the categorical nature of this conclusion. The vast majority of the documentation requested by the auditors was located in a prompt and efficient manner and was provided to the auditors upon request, which demonstrates that an effective process for storing project documentation in our field operations existed. Our inability to locate some documents was due to exceptional circumstances rather than a systemic problem. Some of the possible reasons for our inability to find certain documents have to do with the fact that this award began more than seven years ago and has been audited numerous times as part of ICMA's annual A-133 audit. As part of any audit, files are retrieved from their original storage location and sometimes are lost or not returned to their appropriate place after the conclusion of an audit. We recognize that we need to increase our ongoing effort to ensure that documents are returned to their appropriate locations and are preserved for

future audits. In addition, one of the documents that ICMA was not able to provide to the auditors was, we believe, received by the home office staff in an email communication from USAID. We recognize that absence of this document from our electronic files is a serious problem, and we are taking measures to ensure that our electronic project files are complete going forward. However, we believe that, with few exceptions, despite our inability to locate some specific documents, ICMA has sufficient documentation to support and justify the amounts questioned in this finding.

The total amount questioned in Finding 2014-01, \$1,956,265, consists of six categories of costs (see Tables 2, 3, and 4). ICMA's response pertaining to each category is below.

- 1) Lack of USAID approval for the Garda World contract for security services. In May 2007, after following an appropriate and documented procurement process, ICMA entered into a contract with Garda World International for the provision of security services to the AMSP program. The USAID-approved budget for the Cooperative Agreement included funds for security services; however, the firm was not specifically named in the budget and the accompanying budget narrative. Former ICMA program and administrative staff who worked on the AMSP project at that time stated that the USAID approval for this contract had been obtained in the form of an email communication. We were not able to locate this email communication in our files.

ICMA recognizes that funder approvals are an essential part of program documentation, and the email communication referenced above should have been retained in our contract records. We take this issue very seriously and are taking necessary steps to ensure better retention of important documents received by email. However, although we were unable to find the above mentioned email communication, we located several other documents indicating USAID's full knowledge and implicit approval of ICMA's contract with Garda World, as detailed below.

In March 2008, upon issuance of Modification 2 to the Cooperative Agreement, email communication between ICMA and the USAID Acquisition and Assistance Specialist identified Garda World as the AMSP security provider. Also in March 2008, USAID issued a memorandum titled "Operation of Garda World Security Services in Afghanistan," which specifically names the ICMA project as using the services of Garda World as follows: "...Garda World (formerly called Kroll Security International) is a USAID prime and subcontractor providing security and information services to USAID programs throughout Afghanistan. Specifically, these programs include: a) The Afghanistan Municipal Strengthening Program (AMSP)..." Further, in response to a series of USAID "data calls" in early 2008 for information regarding security providers, ICMA repeatedly informed USAID of its ongoing security contract with Garda World. Finally, in June 2009, in its request to USAID to increase the agreement amount and to realign the budget, ICMA included language in the budget notes that referred to Garda World as the security firm that had been engaged to provide security services to the program. USAID subsequently accepted this request, together with the budget notes, and in June 2009 issued Modification 7 to the Cooperative Agreement.

The evidence detailed above strongly suggests that USAID was fully aware of ICMA's contract with Garda World. Moreover, this evidence demonstrates USAID's approval of this security

arrangement, implicitly through June 2009, the effective date of Modification 7, and explicitly from that point on. In addition, since the notes to the budget incorporated in Modification 7 clearly disclosed that Garda World **had been** providing security services to the AMSP program, USAID's acceptance of them as part of Modification 7 can be interpreted as a retroactive approval.

We disagree with the auditors' recommendation to reimburse USAID \$1,764,724 in security costs, the amount that represents payments to Garda World for security services provided from the inception of the program until the effective date of Modification 7. During the audit, Williams, Adley & Company-DC, LLP reviewed procurement documentation related to the Garda World contract and all supporting documentation for payments to Garda World under this project—including detailed invoices for services actually performed and payment requests and internal approvals—and raised no questions regarding allowability, allocability or reasonableness of these costs. It was clear that the provision of security services was absolutely necessary in order for the project to achieve its objectives, especially since the cost category was specifically identified in the original budget. Several discussions with the auditors revealed that they had found no evidence of fraud, waste or abuse involved in connection with this contract. During the exit conference, the auditors suggested that one of the recommended courses of action was to approach USAID for a formal retroactive approval for Garda World, based on the fact that the services had actually been performed, the costs were necessary, reasonable and allowable, and that USAID had been notified and informed repeatedly of ICMA's agreement with Garda World. Following this recommendation, on June 3, 2014, ICMA submitted to USAID a formal request for a retroactive approval, and we hope to receive a positive response soon.

- 2) Local payroll transactions for which supporting documents were missing: timesheets and payroll worksheets. Having audited \$1,365,173 in local labor costs, the auditors identified several local payroll transactions that were missing part of the supporting documentation (timesheets and payroll worksheets). We are able to provide payroll worksheets for all of these transactions (Attachment 1). Although we have been unable to locate timesheets for some local employees in certain periods, other documentation was provided to the auditors that conclusively supports these labor costs, such as employment agreements, payroll calculations, and bank transfer sheets approved by the Chief of Party, proving that salary payments to employees were made for services actually performed. We agree that timesheets are an essential part of supporting documentation for labor costs. These select timesheets are missing from the files most likely due to human error, and we are reviewing our processes to determine how to minimize such errors in the future. However, we believe that considering all available supporting documentation in its entirety, these local labor costs are justified as the services were actually performed under existing employment agreements, the project received value from these services, and payments to employees were approved by the ICMA Chief of Party.

In addition, item 45 represents a payment to a local contractor for the services provided in February 2009. This amount was questioned because of a missing timesheet. Our research has revealed that this individual was a Legal Advisor who was paid based on invoices rather than timesheets. A copy of the February 2009 invoice is attached (Attachment 2).

Finally, item 143 represents a payment to a local employee for the services provided in December 2007. Although a timesheet and a payroll worksheet were included with the supporting documentation, a copy of the employment agreement was missing from the files. Subsequent to the field audit work and the exit conference, we were able to find a fully executed employment agreement in our files (Attachment 3).

- 3) Consultant and Staff travel transactions for which supporting documentation was not provided (travel authorizations). Transactions questioned in this section (items 24, 44, 46, 48, and 52) represent staff and consultants' travel expenses, and travel authorization (TA) numbers were included with the supporting documentation for all of these items. In our communications with Williams, Adley & Company-DC, LLP subsequent to the exit conference, on July 14, 15, and 17, 2014, the auditors confirmed that the supporting documentation provided for items 44, 46, 48 and 52 was sufficient and that these items were no longer included in questioned costs.

Item 12 represents a payment for \$126 for meals and incidental expenses made in the field office for which we were not able to locate the payment voucher with supporting documentation. Item 24 is a payment for airfare of \$892 for which we were not able to locate an invoice.

- 4) Subcontractor transaction for which contract and timesheet was missing. Item 121 represents a payment to a local contractor of \$1,560 for which we could not produce a contract and a timesheet. This contractor received only one payment from ICMA, for 26 days of work. It appears that this individual was on a trial period and may have been considered for a staff position but was not subsequently hired on a permanent basis. This may explain the absence of a contract.
- 5) No supporting documentation was provided for a non capitalizable software expense. In our communication with Williams, Adley & Company-DC, LLP subsequent to the exit conference, on July 14, 2014, the auditors confirmed that the supporting documentation provided for this item (item 130, \$415) was sufficient and that this item was no longer included in questioned costs.
- 6) No supporting documentation was provided for war risk insurance expense. ICMA provided war risk insurance coverage to its employees implementing programs in Afghanistan. We were unable to locate supporting documentation for this transaction of \$23,823.

Finding 2014-02: Ineligible Questioned Costs

Williams, Adley & Company-DC, LLP Finding: Ineligible costs amounting to \$40,344 were incurred by ICMA related to international business class travel to and from Afghanistan.

Williams, Adley & Company-DC, LLP Recommendation: We recommend that ICMA reimburse USAID Afghanistan for those ineligible costs of \$40,344 or provide USAID's authorization for the exception to the Federal travel regulation. We also recommend that ICMA revise their policies and procedures to be in compliance with Federal Travel Regulations related to international travel and business travel utilization.

ICMA response: We do not concur with this finding and offer the following as a response.

As allowed by the Federal Travel Regulations §301-10.125, in certain cases ICMA approved business class travel for staff and consultants when the scheduled flight time, including non-overnight stopovers during plane changes, exceeded 14 hours. The auditors have questioned business class airfare for seven trips to and from Afghanistan based on the fact that the travelers incurred an overnight stay en route to their final destination. The auditors considered this overnight stay a “rest stop,” which is explicitly prohibited by the Federal Travel Regulations §301-10.125 when in combination with business class airfare.

In items 44, 46, 54, 58, 68, and 73, the travelers’ itineraries included flights from the U.S. to Kabul and from Kabul to the U.S. via Dubai, and the questioned overnight hotel stay in these cases occurred in Dubai. In all of these cases, the overnight hotel stay was necessitated by the airline schedules. Traveling to Afghanistan from the US by the usually traveled route on Fly America compliant flights often involves arriving in Dubai late at night, with no connecting flights to Kabul until the following morning. Similarly, traveling from Afghanistan to the US by the usually traveled route on Fly America compliant flights often requires taking an early morning flight out of Dubai, which necessitates arriving in Dubai the previous night. Federal Travel Regulations do not adequately address this unique situation. However, it is described in the USAID ADS 522.3.11.1 as an exception to the common rule: “*TDY travel to a Critical Priority Country (CPC) may involve forced layovers or flight delays for security purposes, especially when connecting with a military transport. If the approving official authorizes premium class air travel in lieu of a rest stop, the Agency may still provide a rest stop or premium class lounge pass where scheduling/security circumstances allow for no alternative other than an overnight layover. This will be treated as a forced stop and is distinct from a rest stop.*” According to this guidance, ICMA treated an involuntary overnight stay in Dubai as a “forced stop,” as defined by the ADS 522.3.11.1, and not as a “rest stop,” and determined that business class airfare was still allowable despite the overnight stay.

In addition, in items 44, 46, 54, 58, 68, and 73, the duration of the trips exceeded 14 hours even when **excluding** the Dubai – Kabul leg. For example, in item 54, an ICMA employee traveled from Washington, DC, to Frankfurt, changed planes in Frankfurt, and continued from Frankfurt to Dubai. The employee arrived in Dubai at 10:30 pm. Because no connecting flights to Kabul were available that night, the employee overnights in Dubai and took a flight to Kabul the following morning. Total travel time between Washington, DC, and Dubai was 16 hours 38 minutes. Similarly, on return, in order to take a 3:45 am flight from Dubai to Frankfurt, the employee had to travel from Kabul to Dubai the previous night and to overnight in Dubai. The total travel time from Dubai to Washington, DC, via Frankfurt was 18 hours 24 minutes.

ICMA approved business class round trip Washington, DC, – Dubai – Washington, DC, with the final leg, Dubai – Kabul – Dubai as a separate economy roundtrip ticket. Considering that the travel time from Washington, DC, to Dubai and from Dubai to Washington, DC, exceeded 14 hours and that the hotel stay in Dubai both ways was due to a forced stop, we believe that business class airfare in this and similar cases are allowable.

Item 70 represents business class airfare for a consultant who traveled from Boston to Dubai via Munich, with a 12-hour layover in Munich. Facing a 12-hour wait at the airport followed by a 6-hour flight to Dubai, the traveler incurred a day room charge at a hotel in the Munich airport. ICMA subsequently reimbursed the consultant for this expense, which may have resulted in a violation of ICMA travel policy. However, since the business class airfare would not have been questioned by the auditors had the traveler waited for his next flight in the airport instead of checking into the hotel, we believe it would be more appropriate to question the amount ICMA reimbursed the traveler for the day room rather than the amount of the airfare. In addition, as no such layover occurred on the return trip, we do not believe it is appropriate to question the entire roundtrip airfare.

Finding 2014-03: Non-competitive procurement for two program related activities

Williams, Adley & Company-DC, LLP Finding: ICMA failed to enforce their policies and procedures in two (2) program related activities for which the original contract was substantially modified. Bid procedures were performed for each original contract. However, both contracts were substantially modified and competitive procurement for the additional work was not performed as required. Although ICMA has written procedures in this area, the policies do not address when exceptions to this policy are allowed and the necessary documentation of such actions. Finally, no documentation was provided indicating that a proper approval to use the same supplier was granted by ICMA management.

Williams, Adley & Company-DC, LLP Recommendation: We recommend that ICMA reimburse USAID for the amount of \$64,842, the cost of substantial improvements, which were not subject to competition. In addition, ICMA should revise their policies and procedures to obtain approval from the funding agency prior to making a sole source award for substantial amendments to the scope of the goods, services, or works to be delivered under a contract.

ICMA response: We do not concur with this finding and offer the following as a response.

The auditors reviewed documentation related to 63 contracts for services procured under this program, ranging from \$25,000 to \$2,000,000 in value. The volume of procurement performed under this award and the fact that the auditors noted only two exceptions, both of them contract *amendments*, suggest that ICMA had robust procurement processes in place and that ICMA staff in the field followed these processes conscientiously. In the two cases questioned by the auditors, ICMA staff had concluded that it was appropriate to amend the existing contracts on a sole source basis instead of performing a new competitive selection for the additional work. We believe that these contract amendments do not violate either the ICMA Procurement Manual or provisions of 22 CFR 226.43, which requires competition "to the maximum extent practical." We believe that competition under the circumstances was not practical and offer additional details regarding each of the questioned procurements.

Municipal Waste Management/AMSP/MWM Equip – 06/Oct/2009: In October 2009, ICMA issued a solicitation for various items of waste management equipment, including 20 motorized tricycles. ICMA received eight bids from potential suppliers. Donya Afghanistan Logistic Company's quoted price for the tricycles, described as "*Zaraning Garbage motor tricycle box body and hydraulic rear tipping between 175cc and 225 cc rating.*" was \$1,730 per unit. Other bidders' quotes for the identical tricycles ranged

from \$1,800 to \$2,450. Donya was selected based on the fact that its prices for the various units, as well as the total contract price, were the lowest. Documentation we have on file conclusively demonstrates that ICMA followed both federal regulations and its own policies and performed this procurement in a manner that promoted open and free competition.

After the winning supplier was selected (but before awarding the contract), ICMA made a decision to reduce the quantity of tricycles from 20 to 10. Despite the reduction in the unit quantity, the price quoted by Donya, \$1,730 per unit, remained the same. The contract was awarded to Donya Afghanistan Logistic Company in October 2009. In January 2010, ICMA decided to increase the number of vehicles from 10 to 18 based on a request from technical staff. In addition to increasing the number of units to 18, ICMA made a decision to add certain features to the tricycles under procurement (pre-fabricated driver cabin/wind screen, mirrors, and two headlights) to increase their functionality. ICMA solicited a new price quote from Donya Afghanistan Logistic Company for the improved units. It was fully expected that because of these improvements the unit price would increase. Donya's price for the improved tricycles was \$2,132 per unit. Although higher than the original quote of \$1,730 per unit, this price was still lower than those quoted by five out of seven of Donya's competitors in October 2009 **for the original product, which did not have the additional features.**

ICMA believes that the decision to amend the contract with Donya Afghanistan Logistic Company on a sole source basis was appropriate for the following reasons.

- 1) When in January 2010 the quantity of units required was changed from 10 to 18, this increase fell within the scope of the original solicitation (20) and therefore would not, in our view, necessitate a new competitive process.
- 2) ICMA Procurement Manual for the AMSP program, section 10.2.1, allowed for the contract modification, without new competition, if "additional related goods, services, and/or works are to be rendered by the same supplier in furtherance to the execution of an original contract." We believe that the addition of the new features to the original tricycles (pre-fabricated driver cabin/wind screen, mirrors, and two headlights) falls under this definition. In addition, the manual further reads: "When amending a contract to increase the price, procurement personnel must justify the reasonableness of cost (e.g., unit prices should not exceed those in the original contract). **Deviations from the original unit prices must be clearly explained and justified.**" We believe that the increase in the original price was adequately justified in the contract amendment, which explains that the new tricycle is of much superior quality than the one originally solicited and provides multiple photographs to prove it.
- 3) 22 CFR 226.43 requires that procurement transactions "shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." It also states that "awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered." The fact that most of Donya's competitors' prices for the tricycles of lesser quality exceeded the price quoted by Donya for the tricycles with superior specifications provided ICMA staff with sufficient evidence that ICMA was still getting the best price and that no further competition was required.

As such, ICMA concluded that Donya Afghanistan Logistic Company's bid was "responsive to the solicitation and most advantageous, price, quality and other factors considered," and that further competition would not result in a better value and therefore was not practical.

Asadabad Coffee House Construction/AMSP/Asadabad Coffee House – 11/January/2010: In January 2010, at the time of the original procurement solicitation for the construction of the coffee house in Asadabad, Kunar Province, ICMA collected 17 bids from potential contractors. After careful evaluation and analysis of the bids submitted, Sahar Abbasi Construction Company's (SACC) bid was selected as winning, based on a number of selection criteria, including price (documented in the Bid Evaluation Report dated January 19, 2010). Once the contract was signed and the construction commenced, the Kunar provincial governor ordered the site of the coffee house to be moved to another location, close to the Kunar River, and requested that a brick wall be added to the construction project in order to protect the coffee house from getting flooded due to the proximity to the river.

The ICMA Asadabad engineering team agreed that because the construction site was moved, the addition of the wall was now necessary. In a memo to ICMA COP, the ICMA Asadabad engineering team requested that the work be approved and that the SACC contract be amended on a sole source basis. ICMA Chief of Party agreed with this recommendation, and the contract with SACC was amended to include the construction of a brick wall around the coffee house. The second contract amendment represents a slight extension of the wall to include a girls' school in the protected area and was made in response to the request of the elders of Yargul Village. The third amendment added a small amount to the contract in order to increase the depth of the foundation to make the structure more stable.

The auditors' concern relates primarily to the first amendment, which added the construction of the brick wall to the contract. (The second and third amendments did not substantially modify the contract and, therefore, would not require a new competitive process). We believe that the decision to amend the contract with SACC on a sole source basis was appropriate for the following reasons.

- 1) The prices per unit for the additional excavation, masonry, and PCC (precast cement concrete) quoted by SACC for the work associated with building the wall were the same as those in the original bid for the construction of the coffee house. Since SACC was competitively selected for the original contract and its prices for the proposed amendment did not change, this provided sufficient evidence that ICMA was still getting the best value, without going through a new competitive process.
- 2) At the time of this contract amendment in March 2010, ICMA was only a few months away from the conclusion of the program. Modification 9 to the Cooperative Agreement, signed on January 11, 2010, reduced its term from November 7, 2010 to July 7, 2010. ICMA was under increased pressure to complete all project activities under the Cooperative Agreement, including the construction of the coffee house and the surrounding wall, and to perform all required closeout activities within a much shorter timeframe than originally anticipated, by July 7, 2010. Rebidding the construction of the wall would have required additional time, which would jeopardize the completion of the entire project. 22 CFR 226.43 requires that procurement transactions "shall be

conducted in a manner to provide, to the maximum extent practical, open and free competition."
The change in the duration of the project made competition for this procurement impractical.

- 3) ICMA Procurement Manual for the AMSP program, section 10.2.1, allows for the contract modification, without new competition, if *"additional related goods, services, and/or works are to be rendered by the same supplier in furtherance to the execution of an original contract."* We believe that the addition of the brick wall and its subsequent extension falls under this definition.

In its report, Williams, Adley & Company-DC, LLP recommends that "ICMA reimburse USAID for the amount of \$64,842, the cost of substantial improvements, which were not subject to competition." Because we believe that sole sourcing of the improvements was justified in both cases, we do not concur with this recommendation. In addition, the auditors recommend that ICMA "revise their policies and procedures to obtain approval from the funding agency prior to making a sole source award for substantial amendments to the scope of the goods, services, or works to be delivered under a contract." Procurement regulations governing USAID cooperative agreements (Procurement Standards, 22 CFR 226.40-49) do not contain a requirement to obtain USAID approval for sole source procurements, whether for the original purchases of goods and services or for substantial amendments to existing contracts. Therefore, ICMA respectfully disagrees with this recommendation as well. Instead, ICMA will modify its procurement policies and procedures to include clear guidance on what circumstances warrant exception to competition and allow procurement on a sole source basis.

Finding 2014-04: Vetting Sub-awards and Subcontracts

Williams, Adley & Company-DC, LLP Finding: ICMA was unable to provide supporting documentation for vetting efforts conducted prior to awarding forty-seven (47) contracts over \$25,000 during the performance period, May 1, 2007 through August 31, 2010. In 2014, ICMA properly documented its vetting of contractors. None of the contractors and the sole sub-grantee appeared on the lists affiliated with prohibited parties. In 2010 ICMA made changes to its Field Operations Manual to ensure that adequate vetting is performed and documented for procurements in excess of \$5,000 in a timely manner.

Williams, Adley & Company-DC, LLP Recommendation: We recommend that ICMA maintain in the contractor and subcontractor files supporting documentation to demonstrate that ICMA did verify all contractors and sub-grantee under the award to provide assurance to USAID that ICMA has complied with the Executive Order on Terrorism Financing.

ICMA's response: ICMA concurs with the finding and the recommendation. The corrective actions have already been put in place. As noted in the report, in 2010 ICMA established a policy to ensure that adequate vetting for procurements over \$5,000 is performed and that documentation of vetting is retained in our records for future reference.

Finding 2014-05: Improper Accounting Procedures

Williams, Adley & Company-DC, LLP Finding: On November 18, 2008 ICMA modified their contract with Garda World to provide security services for two ICMA programs, the Afghanistan Municipal

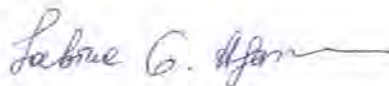
Strengthening Program (AMSP) and the Commercialization of Afghanistan Water and Sanitation Activity (CAWSA). November 2008 to August 2010, as payments were made, the full expense was initially recorded to AMSP. Periodically, the CAWSA program reimbursed the AMSP at a rate of \$5,000 per month. The expenses recorded in the AMSP general ledger were reduced by the payment. However, the timing of the payments affected the accuracy of financial reports for three of seven quarterly periods between November 2008 and August 2010. Finally, the security costs allocation basis used to share security cost between the two programs was not supported.

Williams, Adley & Company-DC, LLP Recommendation: We recommend that ICMA develop and implement written policies and procedures and controls to ensure that shared program expenses are recorded to the correct program at the time of payment/expensing. Also, we recommend that ICMA provide to USAID supporting documentation to support the basis used for the allocation of security costs between these two programs.

ICMA response: ICMA agrees that it would have been a better practice to allocate costs between AMSP and CAWSA at the time of payment to the vendor. We agree with the recommendation to develop a written policy and establish appropriate controls to ensure that shared program expenses are properly recorded in the accounting system at the time of payment. Currently, ICMA does not have a situation where expenses are shared between two or more projects.

We wish to clarify that the allocation basis used to share security costs between the two programs was disclosed to USAID during the CAWSA budget negotiations in October 2008 and was not questioned at the time. In a written communication to the USAID Acquisition and Assistance Specialist, ICMA stated: "...ICMA budgeted \$5,000/month for program Years 1-2 to address the needs for local security as required to support the CAWSA work in the SBUs. The current AMSP security footprint was considered sufficient to meet the needs of CAWSA Expatriate and local staff in and around Kabul. The cost savings to USAID, based on the cost of the current security subcontract for years 1 and 2, are approximately \$42,000/month... In program Year 3, AMSP and the supplemental will be completed and at that time, the CAWSA program will need to cover all the security costs." We believe that by accepting this explanation and awarding the CAWSA project to ICMA, USAID demonstrated its approval of this arrangement.

Sincerely,



Sabina Agarunova
Chief Financial Officer

Attachment B – Auditor Response to Management Comments

Williams Adley, in consideration of the views presented by ICMA management, presents the following rebuttal and clarification to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the findings and recommendations included in this report. In those instances where management's response did not provide new information and support to modify the facts and circumstances of the report findings, we have not provided a rebuttal or clarification.

Finding 2014 – 01

ICMA management asserts that they do have a proper storage implementation process because the majority of the requested documentation was located by ICMA. They state that a possible reason for not being able to locate these documents could be due to the fact that these funds were audited several times for ICMA A-133 audits. Consequently, ICMA states, that files retrieved from the original storage for an audit are sometimes lost or not returned to its original files at the conclusion of the audit. We contend that proper procedures would allow ICMA to provide us with all of the requested documentation.

In addition, ICMA rebuts the amount of \$1,956,265 of unsupported questioned costs. The following is our response to ICMA management comments.

Security Cost – Questioned Cost \$1,764,724

ICMA states that the security contract granted to Garda World followed the appropriate procurement process. According to ICMA, security funds were included in the cooperative agreement budget and narrative that were approved by the USAID. However, Garda World was not included in the narrative as a sole source vendor. ICMA claims that former program and administrative staff from the AMSP project sent email communication stating that USAID approval for this contract was obtained. However, ICMA was not able to find this particular email communication in their files. ICMA also states that they have several communications that were issued by USAID staff that demonstrate that USAID was knowledgeable of the Garda World security contract.

ICMA contends that the USAID's approval of Modification No. 7 in June 2009 demonstrates an implicit retroactive approval of the Garda World security contract. Through Modification No. 7, ICMA informed USAID that security costs of Garda World had doubled from US\$ 20,000/month to US\$43,000/month due to the deteriorating security situation. Modification 7 was approved by USAID and a copy was provided to the auditors.

When requested by the auditors, ICMA could not provide supporting documentation to

validate that approval for the contract terms and costs were given; nor could they corroborate the existence of the e-mail demonstrating USAID approval. Additionally, the letters referred to and provided by ICMA were not from the USAID contracting officer.

Finally, the approval of modification 7 from USAID cannot be seen as an implicit retroactive approval. Having knowledge of and providing documented approval from the contracting officer are not the same. Consequently, the questioned cost for security services remains.

Local Payroll – Questioned Cost \$153,898

Although ICMA rebuts the questioned cost of \$156,498, they do agree on the importance of the timesheet to support labor cost. Our questioned cost is based on 2 CFR 230 requiring awardees to support salaries and wages by time records or timesheets. However, ICMA did provide the missing contract to support \$2,600 paid to an employee. Therefore, the amount of \$2,600, plus the indirect cost share of \$624, were adjusted in the report. Based on the CFR requirement, the remaining questioned cost \$153,898 for labor remains.

ICMA also states that \$500 of the questioned costs correspond to legal advisory services. This amount is recorded as local payroll in ICMA records and the invoice ICMA provided state the following verbatim: “I was assigned as legal advisor of your office on 11-Oct-2008. I want you to pay my salary of (March 2009) amount of (500) \$US. Tax included.”

The invoice provided to us does not make any reference at all to ICMA and does not specify the services rendered. ICMA did not provide a written contract supporting that these services were approved by ICMA and ensuring that the payment received was in accordance with the terms of the contract. Therefore, the questioned cost related to these services remains.

Travel – Questioned Cost \$1,259

We evaluated the documentation provided by ICMA and were able to corroborate these expenses. The original questioned amount of \$2,661 was adjusted in the report by the supported amount of \$1,402. Therefore, the unsupported amount of \$1,259 remains questioned.

Unsupported Payment to Subcontractor – Questioned Amount \$1,560

ICMA states that the individual worked for only 26 days and, as they understand it, he was on his trial period, therefore it may explain the absence of a contract.

Under the Afghanistan labor law Chapter Two; Recruitment and Employment Contract, employment contracts are required inclusive of probationary periods. The auditors were not provided with an employee contract nor timesheets. Therefore, the questioned cost remains.

Software Expense – Questioned Cost \$511

The amount questioned was related to currency exchange differences and not due to supporting documentation. After reviewing the supporting documentation provided by ICMA, we were able to corroborate the expenses claimed to USAID. Therefore, the amount of \$415 plus its indirect cost share of \$96 were adjusted in the report.

Insurance Expense – Questioned Cost \$29,321

ICMA could not provide supporting documentation to support the war risk insurance coverage to employees working in Afghanistan. As such, the questioned cost for the insurance coverage of \$23,823, plus its indirect cost share of \$5,498, remains.

Finding 2014 - 02

ICMA states that, under federal regulations, a business-class airfare is allowable when the travel time, without layover, exceeds 14 hours. ICMA also states that because of the flights stopping in Dubai is a forced stop and not considered a rest stop according to USAID's ADS.

The USAID ADS states that business class should only be chosen in certain circumstances such as where travel is over 14 hours measured by the shortest feasible routing, including reasonable layovers; work schedules/demands do not allow for the traveler to depart earlier and take a rest stop; a premium class lounge will not provide enough rest, comfort and working environment as compared to business class travel; the traveler must report to work on the day of arrival; the point of origin, final destination, or both must be outside the continental United States (OCONUS).

Also, the ADS requires that the travel authorization, which is required prior to travel, include the statement: "Premium class air travel is authorized for TDY travel in excess of 14 hours in lieu of a rest stop. The traveler is required to report for duty the day of arrival and cannot depart earlier to accommodate the rest stop." This statement is required in instances of forced stops as well per the policy. Authorization from an approving official is required to incur premium travel costs for government business.

The auditor was not provided with a travel authorization inclusive of the required information nor authorization from an approving official. Additionally, no documentation was provided indicating that the employee or consultant reported for duty the day of arrival. Also, of the seven transactions questioned, six relate to the travel of one ICMA executive, whose employment contract indicated that ICMA will pay business class accommodation for any business-related travel. Therefore, the questioned cost related to ineligible business class airfare remains.

Finding 2014 – 03

ICMA does not concur with the finding and recommendation. ICMA believes that those contract amendments did not violate either the ICMA Procurement Manual or any

provisions of 22 CFR 226.42, which require competition “to the maximum extent practical” because competition was not practical.

The auditor understands the explanations provided. However, we consider the changes to be substantial modifications and a violation of ICMA policy regarding contract amendments. As such, the questioned cost for those contract amendments remains as stated.

Finding 2014 – 04

ICMA concurs with the finding and recommendation. ICMA states that corrective actions have been established and implemented ensuring that vetting procedures for procurements over \$5,000 are performed and that adequate document retention occurs to support the vetting procedures.

We believe that the ICMA’s actions will address the intent of the recommendations.

Finding 2014 – 05

ICMA concurs with the finding and recommendation. ICMA states that they will develop a written policy to establish the appropriate controls to ensure that expenses shared among programs are properly recorded in the accounting system.

We believe that the ICMA’s actions will address the intent of the recommendations.

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