

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-18 Financial Audit

USAID's Building Education Support Systems for Teachers and Community Based Stabilization Grants Projects: Audit of Costs Incurred by Creative Associates International, Inc.

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



JANUARY
2014



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 7, 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 Creative Associates International, Inc. (CAII) under a U.S. Agency for International Development (USAID) contract to implement the Building Education Support Systems for Teachers (BESST) project¹ and a cooperative agreement to implement the Community Based Stabilization Grants (CBSG) project.² The audit covered the periods January 27, 2006, through August 31, 2011, for the BESST project, and March 7, 2010, through March 6, 2012, for the CBSG project. The audit was performed by Mayer Hoffman McCann P.C. It covered \$134,997,303 in total expenditures.

The purpose of the BESST project was to: (1) strengthen teaching by training Afghan teachers in 11 provinces, and (2) strengthen institutional capacity and systems in the Ministry of Education that support high-quality school teaching, including annual printing and distribution of textbooks. The purpose of the CBSG project was to address community development needs in the north, west, and central regions of Afghanistan by providing small grants for infrastructure construction and repair services to help insulate those unstable communities from insurgent intrusion.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of CAII's Fund Accountability Statement;³
- determine and report on whether CAII has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in CAII's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of its audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Mayer Hoffman McCann P.C.'s audit results and found them to be in accordance with generally accepted government auditing standards.

Mayer Hoffman McCann P.C. found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the awards. Mayer Hoffman McCann P.C. also identified two recommendations from a prior audit of BESST where either adequate corrective action had been taken or where the current audit did not find similar problems. In addition, Mayer Hoffman McCann P.C. reported one

¹ The project was formerly called the Basic Education Program.

² USAID contract number for the BESST project is 306-M-00-06-00508-00; USAID agreement number for the CBSG project is 306-A-00-10-00513-00.

³ The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

internal control deficiency (in the BESST project) and three instances of noncompliance (two in the BESST project and one in the CBSG project), which prompted the auditors to question a total of \$344,479 in costs.⁴ These questioned costs included \$342,846 in ineligible costs and \$1,633 in unsupported costs.⁵ See table 1.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Labor (BESST)	\$141,523	\$140,129	\$1,394
Indirect Costs (BESST)	\$156,506	\$156,267	\$239
Subcontract G&A (BESST)	\$37,806	\$37,806	
Other Direct Costs (CBSG)	\$7,322	\$7,322	
G&A (CBSG)	\$1,322	\$1,322	
Totals	\$344,479	\$342,846	\$1,633

Given the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$344,479 in questioned costs (\$342,846 ineligible and \$1,633 unsupported) identified in the report.
2. Advise CAII to address the one internal control findings identified in the report.
3. Advise CAII to address the three compliance findings identified in the report.

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



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F015)

⁴ Auditors questioned \$335,835 under the BESST project and \$8,644 under the CBSG project.

⁵ Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by USAID to make a final determination regarding allowability. Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

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Background

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under Task Order No. 306-M-00-06-00508-00, Building Education Support Systems for Teachers (BESST) (Task Order), and Cooperative Agreement No. 306-A-00-10-00513-00, Community Based Stabilization Grants (CBSG) (Agreement), between Creative Associates International, Inc. (CAII) and the United States Agency for International Development (USAID) for the period January 27, 2006 to August 31, 2011, and March 7, 2010 to March 6, 2012, respectively.

USAID signed a \$73 million 6-year Task Order with CAII in January 2006 to provide support for the BESST Program in Afghanistan. More specifically, the Task Order was to strengthen teaching by all primary school teachers, strengthen and institutionalize capacity and systems in the Afghan Ministry of Education, and support the annual printing and distribution of textbooks. The Task Order was modified 21 times, resulting in an extension of the end date to August 31, 2011, and an increase in the total ceiling price to \$100 million.

USAID also signed a \$43 million 2-year Cooperative Agreement with CAII in March 2010 to provide support for the CBSG program in Afghanistan. More specifically, the program was to target unstable communities in the north, west, and central regions of Afghanistan with grants to address community development needs to help insulate those communities from insurgent intrusion. The Agreement was modified 8 times to, among other things, revise the program, decrease the total estimated cost, and realign the budget. As a result of the modifications, the total estimated costs of the agreement decreased to \$36 million. The CBSG period of performance ended in March 6, 2012.

Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of CAII's internal controls related to the awards; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

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- *Compliance* – Perform tests to determine whether CAII complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material non-compliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Audit Recommendations* – Determine and report on whether CAII has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations that could have a material effect on the fund accountability statement.

Scope

The scope of this audit included direct operating costs incurred during the period January 27, 2006 through August 31, 2011 under the Task Order, and March 7, 2010 through March 6, 2012 under the Agreement between CAII and USAID. Our testing of indirect costs was limited to determining that the indirect costs were calculated using the correct negotiated indirect cost rate for the given year, as approved by USAID.

Methodology

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held at Creative Associates International, Inc.'s facilities, located on 5301 Wisconsin Ave N.W., Washington, D.C., on June 24, 2013, with representatives of MHM, CAII and SIGAR in attendance or through a conference call.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of CAII;
- Reviewed awards and modifications to CAII;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques.
 - For BESST, selected statistical samples for Other Direct Costs, Subcontractors and Grants. A judgmental sample was selected for Total Labor.

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- For CBSG, selected statistical samples for Other Direct Costs (ODC) and Grants. A judgmental sample was selected for Direct Labor, Travel & Per Diem, Allowances, Sub-contractors and Procurement.

Internal Control Related to the FAS

We reviewed CAII's internal controls related to the FAS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with the Task Order and Agreement Requirements and Applicable Laws and Regulations

We reviewed the Task Order, Agreement, modifications and any subawards and documented all compliance requirements that could have a direct and material effect on the FAS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

Corrective Action on Prior Audit Recommendations

We requested all prior audit reports and recommendations in order to evaluate the adequacy of corrective actions of the prior audit recommendations by reviewing evidence of any corrective actions taken. See the Review of Prior Audit Recommendations subsection of this Summary for the adequacy of corrective actions of applicable prior findings.

Sampling

Our sampling techniques included using the detailed accounting records, and based upon the risk assessed, we performed data mining to assess individual expenditure accounts and transactions that are considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in the number of transactions and more homogeneous in nature, we considered selecting a statistical sample of the costs. If a statistical sample was selected, the sample size was based upon a 95% confidence level with 5% maximum tolerable error rate. All other cost categories and/or accounts for which it was not be appropriate to select a statistical sample were selected on a judgmental basis.

Fund Accountability Statement

In reviewing the FAS, we performed the following:

- Reconciled the costs on the FAS to the Task Order, Agreement and general ledger;
- Traced receipt of funds to the accounting records; and

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- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Task Order or Agreement, and reasonable.

Exit Conference

An exit conference was held on September 26, 2013. Participants included MHM, CAII, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting, and established the next steps to be performed during the reporting phase of the audit.

Summary of Results

Our audit of the costs incurred by CAII under the Task Order and Agreement with USAID identified the following matters:

Auditor's Opinion on FAS

We issued an unqualified opinion on the fairness of the presentation of the FAS. Although we identified \$335,835 of questioned costs in the BESST Program and \$8,644 in the CBSG Program, these totals do not represent a material misstatement of the FAS and therefore did not affect the opinion. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Task Order or Agreement, and applicable laws and regulations including Federal Acquisitions Regulations (FAR) and USAID Acquisition Regulations (AIDAR). Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows.

Ineligible Costs

BESST:

- A total of \$334,202 was charged in excess of the approved budgeted amounts for certain line items. Direct Labor totaling \$140,129 was charged in excess of the approved budget amount, which caused an additional \$156,267 to be charged to the program as associated indirect costs.

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In addition, General and Administrative (G&A) costs totaling \$37,806 were charged in excess of the approved budget in the G&A Aguirre/EDC (G&A other than labor) line item. Aguirre and EDC were CAII's subcontractors. See Finding 2013-1 in the Findings and Responses section of this report.

CBSG:

- A total of \$8,644 was charged to the program without the proper approval from USAID. Transportation allowances totaling \$3,202 were charged to the program without these costs being approved in the budget. Also, \$4,120 in lunch and food expenses was charged to the program without the proper approval in the budget. As a result, \$1,322 was charged to the program in associated indirect costs. See Finding 2013-3 in the Findings and Responses section of this report.

Unsupported Costs

BESST:

- Hours reported by one of CAII's consultants for May 2010 were not adequately supported by timesheets. The amount of labor charged for this consultant was \$1,394. This resulted in G&A questioned costs of \$239. Therefore, a total of \$1,633 was questioned. See Finding 2013-2 in the Findings and Responses section of this report.

Total questioned costs as a result of our audit are as follows:

BESST:	
Ineligible costs	\$334,202
Unsupported costs	<u>1,633</u>
Subtotal questioned costs – BESST	<u>335,835</u>
CBSG:	
Ineligible costs	8,644
Unsupported costs	<u>-</u>
Subtotal questioned costs – CBSG	<u>8,644</u>
Total questioned costs	<u>\$344,479</u>

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Internal Control Findings

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the FAS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

Material Weaknesses

No material weaknesses were reported.

Significant Deficiencies

The following significant deficiency was reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-1	A total of \$334,202 was charged in excess of the approved budgeted amounts for certain line items. Direct Labor totaling \$140,129 was charged in excess of the approved budget amount, which caused an additional \$156,267 to be charged to the program as associated indirect costs. In addition, G&A costs totaling \$37,806 were charged in excess of the approved budget in the G&A Aguirre/EDC (G&A other than labor) line item.	Disagree

The complete management response from CAII to the internal control finding can be found in Appendix A to this report.

Deficiencies

No deficiencies were reported.

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Compliance Findings

As part of obtaining reasonable assurance about whether the FAS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and the Task Order, and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of FAS. The results of our tests disclosed the following instances of non-compliance.

Finding Number	Compliance Finding	Auditee's Concurrence
2013-1	A total of \$334,202 was charged in excess of the approved budgeted amounts for certain line items. Direct Labor totaling \$140,129 was charged in excess of the approved budget amount, which caused an additional \$156,267 to be charged to the program as associated indirect costs. In addition, G&A costs totaling \$37,806 were charged in excess of the approved budget in the G&A Aguirre/EDC (G&A other than labor) line item.	Disagree
2013-2	Hours reported by one of CAII's consultants for May 2010 were not supported by timesheets. The amount of labor charged for this consultant was \$1,394. This caused G&A costs of \$239 to be charged to the Task Order as associated indirect costs.	Agree
2013-3	A total of \$8,644 was charged to the program without the proper approval from USAID. Transportation allowances totaling \$3,202 were charged to the program without these costs being approved in the budget. Also, \$4,120 in lunch and food expenses was charged to the program without the proper approval in the budget. As a result, \$1,322 was charged to the program in associated indirect costs.	Disagree

The complete management response from CAII to the compliance findings can be found in Appendix A to this report.

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Summary of CAII's Response to Findings

The following represents a summary of the responses provided by CAII to the findings identified in this report. Management responses are included after each finding and the complete responses received can be found in Appendix A to this report.

- Finding 2013-1: CAII disagrees with the finding and recommendation. CAII acknowledged that during the last budget realignment as approved in Modification #21, dated July 13, 2011, they inadvertently reduced the amount of the anticipated cost of G&A on Aguirre and EDC other costs. CAII indicated that the ceiling price of this task order was not exceeded and therefore all reasonable costs should be allowable and paid.
- Finding 2013-2: CAII agrees that the timesheets are indeed missing and will pay back USAID the full questioned amount of \$1,633.
- Finding 2013-3: CAII disagrees with the finding and recommendation. CAII maintains that the transportation and meal costs are allowable and reasonable costs for the performance of this CBSG project though not included in the approved budget.

Review of Prior Findings and Recommendations

We reviewed the adequacy of the corrective actions taken to address findings and recommendations from previous engagements that could have a material effect on the FAS. There was one prior audit conducted by the USAID Office of Inspector General (OIG) on the BESST Program that contained three findings and four recommendations. One of these findings was taken into consideration because of the impact it had on the scope of the engagement. Adequate corrective action has not been taken. A summary of this finding is as follows:

- High Value Subcontract Modifications were not Approved by the Mission

The contract between the Mission and CAII, and subsequent instructions from the Mission contracting officer, required that CAII obtain the contracting officer's written approval with consent of the technical representative, prior to the award of subcontracts and subsequent modifications. CAII did not seek or obtain required approvals from the Mission's contracting officer for all of its project subcontract modifications. Many of these modifications resulted in substantial increases in subcontractor funding levels, and one modification terminated the project's monitoring and evaluation subcontractor without Mission approval. According to CAII, they believed they did not need to obtain approval to modify the subcontracts, since they had received earlier approval to make the original subcontract awards. Since the Mission was unaware of some of CAII's subcontract modifications the Mission had little if any assurance of the acceptability of the terms and costs associated with these modifications. Of particular note,

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in the case of the subcontractor termination, the Mission may even be liable for contract termination costs.

- Recommendation

USAID OIG recommended that USAID/Afghanistan require CAII, to submit all pertinent information related to all BESST subcontract modifications for which the Mission has not been notified. After receipt of the pertinent information from CAII, the Mission should determine and document the acceptability of the subcontract modifications.

USAID OIG also recommended that USAID/Afghanistan require a closeout audit of the subcontract between CAII and JBS International, Inc.-Aguirre Division related to the BESST project and implement all corrective actions detailed in the closeout audit report.

- Adequacy of Corrective Actions

CAII provided the Mission with all subcontract modifications for review and written approval of the contacting officer. As it relates to the second recommendation, CAII's management stated they were not informed of any required audit on their part and were not provided with the audit report. CAII obtained the USAID OIG Audit Report No. 5-306-10-006-P, while doing a search on the web. The closeout audit has not been performed. We took this fact into consideration while selecting the samples tested as part of our audit. There were no findings related to JBS International, Inc.-Aguirre Division during the fieldwork performed under this engagement.



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INDEPENDENT AUDITOR'S REPORT ON FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of Creative Associates, Inc. (CAII) for Task Order No. 306-M-00-06-00508-00 (Task Order) and Cooperative Agreement No. 306-A-00-10-00513-00 (Agreement) with the United States Agency for International Development (USAID) for the periods January 27, 2006 through August 31, 2011 and March 7, 2010 through March 6, 2012, respectively. The Fund Accountability Statement is the responsibility of CAII's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit of the Fund Accountability 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 Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Fund Accountability Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund Accountability Statement referred to above present fairly, in all material respects, program revenues, costs incurred and reimbursed, and items and technical assistance directly procured by the United States Agency for International Development for the indicated period in accordance with the terms of the Task Order and Agreement, and in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 17, 2013 on our consideration of CAII's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. 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 Creative Associates, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan

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Fund Accountability Statement

Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Handwritten signature in blue ink that reads "Mayer Hoffman McCann PC".

Bethesda, Maryland
December 17, 2013

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Fund Accountability Statement

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
BESST - Task Order No. 306-M-00-06-00508-00	\$ 100,000,000	\$ 99,768,086	\$ -	\$ -	\$ -	(3)
CBSG - Cooperative Agreement No. 306-A-00- 10-00513-00	\$ 36,000,000	\$ 35,229,217	\$ -	\$ -	\$ -	(3)
Total revenues	<u>136,000,000</u>	<u>134,997,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
<u>BESST</u>						
Total labor	13,595,584	13,735,713	140,129	1,394	141,523	(4)
G&A, fringe and overhead on off-schedule labor	3,680,881	3,505,530	156,267	239	156,506	(6)
Other direct costs	12,926,967	12,790,241	-	-	-	
G&A CAII	██████████	██████████	-	-	-	
G&A Aguirre/EDC (G&A on other than labor)	██████████	██████████	37,806	-	37,806	(6)
Subcontract	50,601,443	50,577,025	-	-	-	
Grants	3,500,000	3,471,340	-	-	-	
Fixed fee	2,409,963	2,409,963	-	-	-	
<u>CBSG</u>						
Direct labor	2,377,392	2,310,843	-	-	-	
Fringe	712,658	696,507	-	-	-	
Overhead	976,987	956,024	-	-	-	
Travel and per diem	234,515	228,094	-	-	-	
Allowances	427,382	448,848	-	-	-	
Subcontractors	6,771,573	6,658,483	-	-	-	
Activities	19,100,004	18,780,962	-	-	-	
Procurement	670,011	671,830	-	-	-	
Other direct costs	2,165,517	1,982,769	7,322	-	7,322	(5)
G&A	██████████	██████████	1,322	-	1,322	(6)
Total costs incurred	<u>136,000,000</u>	<u>134,997,303</u>	<u>342,846</u>	<u>1,633</u>	<u>344,479</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$(342,846)</u>	<u>\$ (1,633)</u>	<u>\$(344,479)</u>	(7)

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Notes to Fund Accountability Statement

(1) **Status and Operation**

Creative Associates International, Inc. (CAII) is a private firm providing professional and technical services. CAII is the second largest company owned by women that works with the U.S. Government. Overseas, CAII works with underserved communities by sharing their expertise and experience in education, governance, stabilization, and transitions from conflict to peace.

USAID signed a \$73 million 6-year Task Order with CAII in January 2006 to provide support for the BESST Program in Afghanistan. More specifically, the Task Order was to strengthen teaching by all primary school teachers, strengthen and institutionalize capacity and systems in the Afghan Ministry of Education, and support the annual printing and distribution of textbooks. The Task Order was modified 21 times, resulting in an extension of the end date to August 31, 2011, and an increase in the total ceiling price to \$100 million.

USAID also signed a \$43 million 2-year Cooperative Agreement with CAII in March 2010 to provide support for the CBSG program in Afghanistan. More specifically, the program was to target unstable communities in the north, west, and central regions of Afghanistan with grants to address community development needs to help insulate those communities from insurgent intrusion. The Agreement was modified 8 times to, among other things, revise the program, decrease the total estimated cost, and realign the budget. As a result of the modifications, the total estimated costs of the agreement decreased to \$36 million.

(2) **Summary of Significant Accounting Policies**

(a) **Basis of Accounting**

The Fund Accountability Statement reflects the revenues and expenses incurred under the awards. It has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

(b) **Foreign Currency Conversion Method**

CAII converts its expenses that were paid in local currency (Afghanis) into the reporting currency (U.S. Dollar) by applying the bank exchange rates used to transfer funds between U.S. dollar account and Afghanis account at the time of the transfer.

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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For the Period January 27, 2006 through August 31, 2011; and
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For the Period March 7, 2010 through March 6, 2012

Notes to Fund Accountability Statement

(Continued)

(2) **Summary of Significant Accounting Policies (Continued)**

(c) Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement or applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(3) **Revenues**

As of August 31, 2011, CAII had received \$99,768,086 in payments from USAID under the Task Order. In addition, as of March 6, 2012, CAII had received \$35,229,217 in payments from USAID under the Agreement.

(4) **Total Labor**

CAII reported personnel costs in the amount of \$13,735,713 for the period January 27, 2006 through August 31, 2011. Direct Labor totaling \$140,129 was charged to the Task Order in excess of the approved budget for that line item without any written approval from USAID. In addition, hours reported by one of CAII's consultants for May 2010 were not adequately supported by timesheets. The amount of labor charged for this consultant was \$1,394. Total questioned direct labor for BESST is \$141,523. See Note 6 for details related to the associated indirect costs.

(5) **Other Direct Costs – CBSG**

CAII reported other direct costs in the amount of \$1,982,769 for the period March 7, 2010 through March 6, 2012. Transportation costs totaling \$3,202 were charged to the Agreement without the proper approval from USAID. At the same time food costs totaling \$4,120 were charged to the Agreement without the proper approval from USAID. Total questioned Other Direct Costs for CBSG are \$7,322. See Note 6 for details related to the associated indirect costs.

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Notes to Fund Accountability Statement

(Continued)

(6) Indirect Costs

Under the BESST Task Order, CAII reported G&A, fringe and overhead on off-schedule labor of \$3,505,530 for the period January 27, 2006 through August 31, 2011. This Task Order was awarded under the Mission Oriented Business Integrated Services (MOBIS) schedule that CAII has with the General Services Administration (GSA). Off-schedule labor refers to labor charges that were not included in the MOBIS contract rate schedule. Also under the CBSG Agreement, CAII reported G&A costs in the amount of \$2,494,857 for the period March 7, 2010 through March 6, 2012. The negotiated indirect cost rates were as follows:

Type	Effective Period		Indirect Cost Rates		
	From	Through	Fringe Benefits (a)	Overhead (b)	G&A (c)
Final	10-01-03	09-30-04			
Provisional	10-01-04	09-30-05			
Provisional	10-01-05	09-30-06			
Provisional	10-01-06	09-30-07			
Provisional	10-01-07	09-30-08			

Type	From	Through	Fringe Benefits		Overhead (b)	G&A (c)
			CCN (d)	USN/TCN (e)		
Provisional	10-01-08	09-30-09				
Provisional	10-01-09	09-30-10				
Provisional	10-10-10	Until Amended				

The basis of allocation for the indirect costs is as follows:

- (a) Total labor dollars
- (b) Total direct labor dollars and Bid & Proposals (B&P) labor dollars
- (c) Total costs excluding G&A and pass-through other direct expenses
- (d) Total cooperating country nationals (CCN) labor dollars
- (e) Total United States nationals (USN) and third country nationals (TCN) labor dollars

Since costs are questioned, an adjustment for associated indirect costs is required. We used the negotiated provisional indirect cost rates in calculating the allowable indirect costs. The appropriate rate for each year was applied to the individual costs questioned. As described in the previous paragraph, each type of indirect costs, i.e., overhead, material handling, G&A, etc. has a different basis of allocation. As a result, each type of indirect cost might not be applicable to all cost categories. A summary of associated questioned indirect costs by cost category is as

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Notes to Fund Accountability Statement

(Continued)

(6) Indirect Costs (Continued)

follows. See Finding 2013-1, 2013-2 and 2013-3 in the Findings and Responses section of this report.

BESST – Cost Category	Questioned Cost	Associated Indirect Costs			Total Questioned Indirect Costs
		<u>Fringe</u>	<u>Overhead</u>	<u>G&A</u>	
Direct Labor	\$141,253	\$52,745	\$58,181	\$45,580	\$156,506
G&A Aguirre/EDC	<u>37,806</u>	<u>-</u>	<u>-</u>	<u>37,806</u>	<u>37,806</u>
Total	<u>\$179,059</u>	<u>\$52,745</u>	<u>\$58,181</u>	<u>\$83,386</u>	<u>\$194,312</u>

<u>CBSG – Cost Category</u>	Questioned Cost	Associated Indirect Costs		Total Questioned Indirect Costs
		<u>G&A</u>	<u>G&A</u>	
Other direct costs	<u>\$7,322</u>	<u>\$1,322</u>	<u>\$1,322</u>	<u>\$1,322</u>
Total	<u>\$7,322</u>	<u>\$1,322</u>	<u>\$1,322</u>	<u>\$1,322</u>

(7) Outstanding Fund Balance

There was no outstanding fund balance as of August 31, 2011 and March 6, 2012 under the Task Order and Agreement, respectively.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FUND ACCOUNTABILITY STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Fund Accountability Statement of Creative Associates International, Inc. (CAII) representing revenues received and costs incurred under Task Order No. 306-M-00-06-00508-00, and Cooperative Agreement No. 306-A-00-10-00513-00 with the United States Agency for International Development for the period January 27, 2006 to August 31, 2011, and March 7, 2010 to March 6, 2012, respectively, and have issued our report thereon, dated December 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Management of CAII is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered CAII's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of CAII's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CAII's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified one deficiency in internal control over financial reporting, described in the accompanying Findings and Responses as finding 2013-1, that we consider to be a significant

Board of Directors
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deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

CAI's response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. We did not audit CAI's response and, accordingly, we express no opinion on it.

This report is intended for the information of Creative Associates International, Inc., 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 USC 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink that reads "Mayer Hoffman McCann PC".

Bethesda, Maryland
December 17, 2013



Mayer Hoffman McCann P.C.

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**REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FUND ACCOUNTABILITY STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the Fund Accountability Statement of Creative Associates International, Inc. (CAII) representing revenues received and costs incurred under Task Order No. 306-M-00-06-00508-00, and Cooperative Agreement No. 306-A-00-10-00513-00 with the United States Agency for International Development for the period January 27, 2006 to August 31, 2011, and March 7, 2010 to March 6, 2012, respectively, and have issued our report thereon dated December 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether CAII's Fund Accountability Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Fund Accountability Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Responses as Findings 2013-1, 2013-2, and 2013-3.

CAII's response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. We did not audit CAII's response and, accordingly, we express no opinion on it.

This report is intended for the information of Creative Associates International, Inc., 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 USC 1905 should be considered before any information is released to the public.

A handwritten signature in cursive script that reads "Mayer Hoffman McCann P.C." in dark ink.

Bethesda, Maryland
December 17, 2013

CREATIVE ASSOCIATES INTERNATIONAL, INC.

Financial Audit of Costs Incurred under
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 For the Period January 27, 2006 through August 31, 2011; and
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 For the Period March 7, 2010 through March 6, 2012

Findings and Responses

2013-1: Budget line items were exceeded without approval from funding agency

<u>Type of Award</u>	<u>Number</u>	<u>Program</u>
Task Order	306-M-00-06-00508-00	BESST

Condition:

Direct Labor totaling \$140,129 was charged to the Task Order in excess of the approved budget for that line item without any written approval from USAID. This caused \$156,267 to be charged to the Task Order as associated indirect costs. In addition, G&A costs totaling \$37,806 were also charged in excess of the approved budget for that line item without any written approval from USAID.

Building Education Support Systems for Teachers (BESST) Program

<u>Condition</u>	<u>Budget Amount</u>	<u>Actual Amount</u>	<u>Questioned Cost</u>
Total Labor	\$ 13,595,584	\$ 13,735,713	<u>\$ 140,129</u>
Total questioned costs related to total Labor			<u>140,129</u>
Associated Indirect Costs			
Fringe [REDACTED]			52,745
Overhead [REDACTED]			58,181
G&A [REDACTED]			<u>45,341</u>
Total Associated Indirect Costs			<u>156,267</u>
Total labor questioned + associated indirect costs			<u>296,396</u>
G&A Aguirre/EDC (G&A on other than labor)	53,194	91,000	<u>37,806</u>
Total questioned costs due to exceeding approved budgeted amounts			<u>\$ 334,202</u>

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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Findings and Responses

(Continued)

2013-1: Budget line items were exceeded without approval from funding agency (Continued)

Cause:

CAI's management stated that they were not aware of any provision in the contract that requires such approval since total costs claimed did not exceed the total contract amount.

Criteria:

FAR 31.201.2 *Determining Allowability*, states that

“(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.”

Modification #21 to the BESST award realigned the budget and revised the dollar amounts for the Total Labor and the G&A Aguirre/EDC (G&A on other than labor) categories to \$13,595,584 and \$53,194, respectively.

Effect:

Claiming costs in excess of the approved budget without appropriate approval is in violation of the Federal Acquisition Regulation. This practice allows the contractor to recapture costs that were not budgeted as part of the specific line items.

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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Findings and Responses

(Continued)

2013-1: Budget line items were exceeded without approval from funding agency (Continued)

Cost Category	Fund Accountability Statement	Questioned Cost
Direct Labor	\$ 13,735,713	\$ 140,129
G&A, Fringe & Overhead on Off-Schedule Labor	3,505,530	156,267
Other Direct Costs	12,790,241	-
G&A CAII	13,187,274	-
G&A Aguirre/EDC	91,000	37,806
Subcontract	50,577,025	-
Grants	3,471,340	-
Fixed Fee	2,409,963	-
Total Costs	\$ 99,768,086	\$ 334,202

Recommendation:

- (1) We recommend that CAII either obtain approval for exceeding the award's budget line items or return \$334,202 to USAID for the excess charged to the BESST program costs.
- (2) We recommend CAII institute a procedure that seeks proper approval for funds needed in excess of an award's budget line items or prevents CAII from charging the federal government for expenses in excess of the approved budget line item.

Management Response:

Per Task Order Section A.8, we quote "The contractor will not be paid any sum in excess of the ceiling price." The ceiling price is set at the aggregate value of the contract which at the end of the performance of this task order, we had not exceeded.

The questioned labor costs (\$140,129) are 1.03% of the Total Labor budget line item, a small variance on a \$100,000,000 project.

While we acknowledge that during the last budget realignment as approved in Modification #21, dated July 13, 2011, we inadvertently reduced the amount of the anticipated cost of G&A on Aguirre and EDC other costs, we still maintain that the ceiling price of this task order was not exceeded and therefore all reasonable costs should be allowable and paid.

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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Findings and Responses

(Continued)

Rebuttal to Management Response:

Our interpretation of this regulation is that the budget line items amounts in conjunction with the overall budget amount are the ceiling price to which the contractor has to abide by. There would be no sense in having them prepare and update a budget by line item throughout the life of the project if these line items limits would not be enforced.

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Findings and Responses

(Continued)

2013-2: Missing Source Documentation to Support Expense

<u>Type of Award</u>	<u>Number</u>	<u>Program</u>
Task Order	306-M-00-06-00508-00	BESST

Condition:

Hours reported by one of CAII's consultants for May 2010 were not supported by timesheets. The amount of labor charged for this consultant was \$1,394. This caused G&A costs of \$239 to be charged to the Task Order as associated indirect costs.

<u>Condition</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
Direct Labor:		
Consultants		
No timesheets provided	1	\$ 1,394
Total questioned costs related to direct labor	1	1,394
Associated Indirect Costs		
G&A [REDACTED]		239
Total Indirect Costs related to questioned costs		239
Total questioned costs due to missing supporting documentation		\$ 1,633

Cause:

CAII's management stated that their inability to provide the timesheets supporting the \$1,633 claimed was due to filing errors that occurred in the document relocation and storage process. Management also stated supporting documents could have been misplaced within all the boxes used to store all the files related to the program.

Criteria:

48 CFR 31.201-2, *Determining Allowability*, states, in part:

"(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements..."

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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Findings and Responses

(Continued)

2013-2: Missing Source Documentation to Support Expense (Continued)

Additionally, 48 CFR 52.215-2, *Audit and Records – Negotiation*, states, in part:

“...(b) *Examination of costs.* If this is a cost-reimbursement, incentive, time-and-materials, labor-hour, or price redeterminable contract, or any combination of these, the Contractor shall maintain...all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract...”

Effect:

Without adequate supporting documentation it is not possible to clearly determine whether the Federal funds were used in accordance with Federal regulations and the terms of the contract and therefore determine their allowability. Requesting reimbursement for labor dollars without the proper supporting documentation is in clear violation of Federal regulations. Total questioned direct labor (consultants), and related indirect costs are \$1,633, consisting of \$1,394 in direct labor, plus the associated G&A of \$239.

Cost Category	Fund Accountability Statement	Questioned Cost
Direct Labor	\$ 13,735,713	\$ 1,394
G&A, Fringe & Overhead on Off-Schedule Labor	██████████	239
Other Direct Costs	12,790,240	-
G&A CAII	██████████	-
G&A Aguirre/EDC	██████████	-
Subcontract	50,577,025	-
Grants	3,471,340	-
Fixed Fee	2,409,963	-
Total Costs	\$ 99,768,086	\$ 1,633

Recommendation:

- (1) We recommend that Creative Associates International, Inc either provide USAID adequate documentation for further review or return \$1,633 to USAID for unsupported program costs.

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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Findings and Responses

(Continued)

Management Response:

We acknowledge the auditors' findings and after considerable review of our records, we have concluded that the timesheets are indeed missing and Creative will pay back USAID the full questioned amount of \$1,633.

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Findings and Responses

(Continued)

2013-3: Ineligible Expenses charged to the Agreement

<u>Type of Award</u>	<u>Number</u>	<u>Program</u>
Cooperative Agreement	306-A-00-10-00513-00	CBSG

Condition:

Transportation costs totaling \$3,202 were charged to the Agreement without the proper approval from USAID. These were paid to the program's employees as transportation allowances while in Afghanistan. Transportation allowances were not included in the approved award budget. At the same time, food costs totaling \$4,120 were charged to the Agreement without the proper approval from USAID. These costs were for regular grocery shopping by employees while in Afghanistan, and not included in the approved award budget. This caused G&A costs of \$1,322 to be charged as associated indirect costs.

Community Based Stabilization Grants (CBSG) Program

Observation	Number of Errors	Questioned Cost
Other Direct Costs:		
Transportation costs not included in the approved budgets	83	\$ 3,202
Lunch and food costs not included in the approved budgets	5	4,120
Total questioned costs related to other direct costs	<u>88</u>	<u>7,322</u>

Associated Indirect Costs

G&A [REDACTED]	<u>1,322</u>
Total Indirect Costs related to questioned costs	<u>1,322</u>

Total questioned costs due to ineligibility **\$ 8,644**

Cause:

CAII's management stated that these costs were charged to the program because it is a requirement of the Afghan Labor Law. In addition, they stated that transportation and meal costs are allowable and reasonable costs for the performance of this CBSG project though not included in the approved budget.

Criteria:

FAR 31.201.2 *Determining Allowability*, states that

“(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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For the Period March 7, 2010 through March 6, 2012

Findings and Responses

(Continued)

2013-3: Ineligible Expenses charged to the Agreement (Continued)

- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.”

Effect:

Failure to follow the cooperative agreement terms undermines the controls established in the agreement. Award budget categories serve as the control and are intended to limit costs to the government.

Cost Category	Fund Accountability Statement	Questioned Cost
Direct Labor	\$ 2,310,843	-
Fringe	██████████	-
Overhead	██████████	-
Travel & Per Diem	228,094	-
Allowances	448,848	-
Subcontract	6,658,483	-
Activities	18,780,962	-
Procurement	671,830	-
Other Direct Costs	1,982,769	\$7,322
G&A	██████████	1,322
Total Costs	\$ 35,229,217	\$ 8,644

Recommendation:

- (1) We recommend that Creative Associates International, Inc. either return \$8,644 to USAID for ineligible program costs or provide USAID with supporting documentation for further review and determination of cost allowability.

Management Response:

Creative maintains that the transportation and meal costs are allowable and reasonable costs for the performance of this CBSG project though not included in the approved budget. These transport allowances and meals were provided to employees for security reasons and at a cost of maintaining a healthy employee relationship and to retain valuable employees within the existing market rates. The

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Findings and Responses

(Continued)

total amount charged to the project is insignificant as compared to the total cost of \$35,229,217 incurred on the project.

Rebuttal to Management Response:

One of the attributes during our testing is to verify if expenses charged to the award were part of the approved budget. We questioned these transactions as they were not included in the approved budget.

CREATIVE ASSOCIATES INTERNATIONAL, INC.

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For the Period March 7, 2010 through March 6, 2012

CAII Response to Findings

Included on the following page is CAII's response received pertaining to the findings identified in this report.



Financial Audit of the Costs incurred under
Task Order No. 306-M-00-06-00505-00
For the Period January 27, 2006 through August 31, 2011; and
Cooperative Agreement No. 306-A-00-10-00513-00
For the Period March 7, 2010 through March 6, 2012

Findings and Responses

2013-1: Budget line items were exceeded without approval from the funding agency

Management Response:

Per Task Order Section A.8, we quote “The contractor will not be paid any sum in excess of the ceiling price.” The ceiling price is set at the aggregate value of the contract which at the end of the performance of this task order, we had not exceeded.

The questioned labor costs (\$140,129) are 1.03% of the Total Labor budget line item, a small variance on a \$100,000,000 project.

While we acknowledge that during the last budget realignment as approved in Modification #21, dated July 13, 2011, we inadvertently reduced the amount of the anticipated cost of G&A on Aguirre and EDC other costs, we still maintain that the ceiling price of this task order was not exceeded and therefore all reasonable costs should be allowable and paid.

2013-2: Missing Source Documentation to Support Expense

Management Response:

We acknowledge the auditors’ findings and after considerable review of our records, we have concluded that the timesheets are indeed missing and Creative will pay back USAID the full questioned amount of \$1,633.

2013-3: Ineligible Expense charged to the Agreement

Management Response:

Creative maintains that the transportation and meal costs are allowable and reasonable costs for the performance of this CBSG project though not included in the approved budget. These transport allowances and meals were provided to employees for security reasons and at a cost of maintaining a healthy employee relationship and to retain valuable employees within the existing market rates. The total amount charged to the project is insignificant as compared to the total cost of \$35,229,217 incurred on the project.

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

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