

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-20 Financial Audit

USAID's Community Development Program: Audit of Costs Incurred by Central Asia Development Group, Inc.



JANUARY
2014



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 9, 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 Central Asia Development Group, Inc. (CADG) under a cooperative agreement with the U.S. Agency for International Development (USAID) supporting the Community Development Program.¹ The audit covered the period March 12, 2009, through June 30, 2013, and was performed by Mayer Hoffman McCann P.C. It covered \$254,540,870 in expenditures.

The purpose of the Community Development Program (formerly called the Food Insecurity Response for Urban Populations) was to provide temporary employment and income through Cash-for-Work programs² to targeted individuals and communities in 16 vulnerable Afghan populations. The program was to serve both rural and urban areas with the intended effects of reducing the impact of poverty and economic vulnerability that could result in instability and insurgency.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of CADG's Fund Accountability Statement;³
- determine and report on whether CADG has taken corrective action on recommendations from prior audits or assessments
- identify and report on significant deficiencies, including any material weaknesses, in CADG'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 except for \$7,853,478 in questioned costs and \$9,613 of lost interest earnings, the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the cooperative agreement. They identified no recommendations from prior audits or assessments for follow-up or corrective action. Nevertheless, Mayer Hoffman McCann P.C. reported nine internal control findings and five instances of noncompliance, which prompted the auditors to question

¹ USAID agreement number 306-A-00-09-00511-00.

² Cash-for-Work programs are short-term interventions used by humanitarian assistance organizations to provide temporary employment in public projects (such as repairing roads, clearing debris, or re-building infrastructure) to the most vulnerable segments of a population.

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.

\$7,853,478 in costs. These questioned costs included \$563,477 in ineligible costs⁴ and \$7,290,001 in unsupported costs.⁵ See table 1 below.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Labor Costs – Salaries and Wages	\$324,562		\$324,562
Allowances	\$2,863		\$2,863
Travel and Transportation	\$3,391,580		\$3,391,580
Program Costs – Cash-for-Work	\$1,443,266	\$445,808	\$997,458
Other Direct Costs	\$608,595	\$1,396	\$607,199
Expensed Equipment and Vehicles	\$582,187		\$582,187
Overhead	\$1,500,425	\$116,273	\$1,384,152
Totals	\$7,853,478	\$563,477	\$7,290,001

In addition, the audit found that CADG had not deposited advances of Federal funds into an interest bearing account as required. This resulted in an estimated lost program income of \$9,613.

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

1. Determine the allowability of and recover, as appropriate, \$7,853,478 in questioned costs (\$563,477 ineligible and \$7,290,001 unsupported) identified in the report.
2. Recover the estimated \$9,613 in lost interest revenue.
3. Advise CADG to address the nine internal control findings identified in the report.
4. Advise CADG to address the five 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

(F013)

⁴ 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.

⁵ 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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SUMMARY

Background

On March 12, 2009, the United States Agency for International Development (USAID) awarded Cooperative Agreement Number 306-A-00-09-00511-00 (Agreement) to Central Asia Development Group, Inc. (CADG) in the amount of \$10,000,000. The initial period of performance was through September 8, 2009. The Agreement has been modified 21 times increasing the total amount of the Agreement to \$265,966,468.

The purpose of the Agreement was to conduct activities focused on supporting the Food Insecurity Response for Urban Population (FIRUP) Program. The goal of the FIRUP Program was to relieve food insecurity for five provinces in Afghanistan, and target individuals and communities with Cash-for-Work (CFW) programs as an economic stimulus in the local communities. The five provinces were Kandahar, Lashkar Gah, Tarin Kot, Gardez and Jalalabad.

Throughout the period of performance, the scope of the Agreement was changed through modifications. In September 2009, the FIRUP Program period of performance was extended through September 11, 2010 and the scope was increased to include nine new provinces. In August 2010, the name of the FIRUP Program was changed to the Community Development Program (CDP), and two new provinces were added. In February 2013, the CDP was extended to provide stabilization support to counter-narcotics efforts in Kandahar, the Kandahar Helmand Power Project, and the Gardez-Khost Road. In March 2013, Modification Number 21 extended the period of performance through August 31, 2013.

The Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under the Agreement for the period March 12, 2009 through June 30, 2013.

Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

- *Internal Controls* – Evaluate and obtain a sufficient understanding of CADG's internal controls related to the award, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether CADG complied, in all material respects, with the 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.

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- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether CADG has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Fund Accountability Statement.
- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS for the award 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.

Scope

The scope of this audit included all costs incurred during the period March 12, 2009 through June 30, 2013 under the Agreement. Our testing of overhead was limited to determining that the overhead was calculated using the correct final negotiated overhead rate or provisional overhead rate, as applicable for the given fiscal 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 via conference call on July 1, 2013. Participants included representatives of CADG, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of CADG;
- Reviewed the Agreement and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium risk for inclusion in our test of transactions. If the population of

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a given cost category tended to be large in number of transactions and homogeneous in nature, we selected a statistical sample of the costs. The sample size tested was based upon a 95% confidence level with a 5% maximum tolerable error rate. The sample was selected on a random basis. All other cost categories and/or accounts for which it was not appropriate to select a statistical sample, the sample was selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:

- For accounts that appeared to contain unallowable and restricted items according to the terms of the Agreement, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we tested 100% of the transactions.
- For related party transactions, we tested 100% of the transactions.
- For high risk cost categories, we sampled at least 50% of the dollar value of the account.
- For medium risk cost categories, we sampled at least 20% of the dollar value of the account.
- For low risk cost categories, we sampled 10% of the dollar value of the account, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

For those cost categories and/or accounts that were selected on a statistical basis, we calculated an error rate and projected the results to the population. If the results for a judgmental sample indicated a material error rate, our audit team consulted with the Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of a judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the FAS

We reviewed CADG'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 Agreement Requirements and Applicable Laws and Regulations

We reviewed the Agreement, modifications and 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 Findings and Recommendations

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the FAS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

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Fund Accountability Statement

In reviewing the FAS, we performed the following:

- Reconciled the costs on the FAS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable.

Exit Conference

An exit conference was held on October 8, 2013 via conference call. Participants included CADG, 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.

Summary of Results

Our audit of the costs incurred by CADG under the Agreement with USAID identified the following matters:

Auditor's Opinion on FAS

We issued a qualified opinion on the fairness of the presentation of the FAS based upon the identification of \$7,853,478 of questioned costs and \$9,613 of lost interest earnings, which represents a material misstatement of the FAS. Included within the questioned cost amount was the loss of Federal funds totaling \$561,718 resulting from employees' theft by manipulating timesheets for fictitious CFW laborers. 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 Agreement and applicable laws and regulations, including 22 CFR 226 and FAR Part 31. 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:

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Ineligible Costs

- Fraud due to the manipulation of timesheets for fictitious CFW laborers occurred in the Zabul province, resulting in \$561,718 of ineligible costs. See Finding 2013-1 in the Findings and Responses section of this report.
- Unallowable costs charged to the Agreement resulting in \$1,759 of ineligible costs. See Finding 2013-9 in the Findings and Responses section of this report.

Unsupported Costs

- No documentation provided to support that the lowest airfare was incurred, or prior approval for other than the lowest airfare was obtained from USAID, resulting in questioned costs of \$4,273,327. See Finding 2013-2 in the Findings and Responses section of this report.
- Lack of complete documentation for the CFW Program, resulting in \$1,256,797 of questioned costs. See Finding 2013-3 in the Finding and Responses section of this report.
- Documentation was either not provided or insufficient documentation was provided to support transactions selected for testing within allowances, travel and transportation, other direct costs, and expensed equipment and vehicles, resulting in \$466,862 of questioned costs. See Finding 2013-4 in the Finding and Responses section of this report.
- Lack of adherence to timesheet policies and terms of employment contracts for labor costs – salaries and wages claimed, resulting in \$408,948 of questioned costs. See Finding 2013-5 in the Finding and Responses section of this report.
- Documentation was not provided to support procurement efforts within other direct costs and expensed equipment and vehicles, resulting in \$418,904 of questioned costs. See Finding 2013-6 in the Finding and Responses section of this report.
- CADG transferred 16 assets with a cost of \$284,285 from one province to another, but no documentation was maintain to support the transfer in to the new province. Additionally, there were 21 assets with a cost of \$379,988 that were donated, and 3 assets with a cost of \$44,250 that were damaged. However, USAID approval was not obtained for the donated and damaged assets. The fair market value of the donated and damaged assets was \$180,878. Total questioned costs were \$465,163. See Finding 2013-7 in the Findings and Responses section of this report

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

Ineligible costs	\$ 563,477
Unsupported costs	<u>7,290,001</u>
Total questioned costs	<u>\$7,853,478</u>

Program Income

Program income represents income generated from the use of Federal funds that is required to be used in support of the purposes of the Agreement. During the audit period, CADG received advances of Federal funds which were not deposited into an interest bearing account in order to generate program income. The amount of lost program income was \$9,613. See Finding 2013-8 in the Findings and Recommendations section of this report.

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

The following material weaknesses were reported:

Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
2013-1	Fraud due to the manipulation of timesheets for fictitious CFW laborers occurred in the Zabul province, resulting in \$561,718 of ineligible costs.	Partially Disagree
2013-2	No documentation provided to support that the lowest airfare was incurred, or prior approval for other than the	Disagree

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Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
	lowest airfare was obtained from USAID, resulting in questioned costs of \$4,273,327.	
2013-3	Lack of complete documentation for the CFW Program, resulting in \$1,256,797 of questioned costs.	Agree
2013-4	Documentation was either not provided or insufficient documentation was provided to support transactions selected for testing within allowances, travel and transportation, other direct costs, and expensed equipment and vehicles, resulting in \$466,862 of questioned costs.	Agree
2013-5	Lack of adherence to timesheet policies and terms of employment contracts for labor costs – salaries and wages claimed, resulting in \$408,948 of questioned costs.	Partially Disagree
2013-6	Documentation was not provided to support procurement efforts within other direct costs and expensed equipment and vehicles, resulting in \$418,904 of questioned costs.	Partially Disagree

Significant Deficiencies

The following significant deficiencies were reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-7	CADG transferred 16 assets with a cost of \$284,285 from one province to another, but no documentation was maintain to support the transfer in to the new province. Additionally, there were 21 assets with a cost of \$379,988 that were donated, and 3 assets with a cost of \$44,250 that were damaged. However, USAID approval was not obtained for the donated and damaged assets. The fair market value of the donated and damaged assets was \$180,878. Total questioned costs were \$465,163.	Disagree
2013-9	Unallowable costs charged to the Agreement resulting in \$1,759 of ineligible costs.	Disagree

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Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-10	CADG did not adhere to its established policies and procedures related to the administration of the Agreement. No costs were questioned as adequate support was provided for the costs incurred.	Partially Disagree

Deficiencies

No deficiencies were reported.

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 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 compliance findings as described Findings and Responses section of this report.

Finding Number	Compliance Finding	Auditee's Concurrence
2013-7	CADG transferred 16 assets with a cost of \$284,285 from one province to another, but no documentation was maintain to support the transfer in to the new province. Additionally, there were 21 assets with a cost of \$379,988 that were donated, and 3 assets with a cost of \$44,250 that were damaged. However, USAID approval was not obtained for the donated and damaged assets. The fair market value of the donated and damaged assets was \$180,878. Total questioned costs were \$465,163.	Disagree
2013-8	Advances under the Agreement were not deposited into an interest bearing account. Total lost interest was \$9,613.	Disagree
2013-9	Unallowable costs charged to the Agreement resulting in \$1,759 of ineligible costs.	Disagree
2013-10	CADG did not adhere to its established policies and procedures related to the administration of the Agreement. No costs were questioned as adequate support was	Partially Disagree

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Finding Number	Compliance Finding	Auditee's Concurrence
	provided for the costs incurred.	
2013-11	Of the 43 local Afghan employee personnel files reviewed, none of the files contained evidence that a background check was performed. Additionally, résumés were missing in 18 of the files.	Partially Disagree

Summary of CADG's Responses to Findings

The following represents a summary of the responses provided by CADG to the findings identified in this report. The complete responses received can be found in Appendix B to this report.

- Finding 2013-1: CADG partially disagrees with the finding and recommendation. It indicated that the amount questioned for the theft of Federal funds was returned to USAID on November 15, 2013. Since these funds were returned to USAID and were not claimed as a direct expense, there were no overhead costs incurred.
- Finding 2013-2: CADG disagrees with the finding and recommendation. It indicated that the use of travel agencies and their price is allowable per the Federal Acquisition Regulation. It was unfeasible to obtain multiple bids per flight when purchasing flights for up to 200 local Afghans frequently throughout the year. Additionally, CADG obtained contracts with third party airlines flying within Afghanistan and required them to provide the lowest logical fare. Lastly, safety was a main concern of CADG, and it adhered to the regulations on the State Department website noting that U.S. government personnel are not permitted to travel on most Afghan airlines due to ongoing safety concerns.
- Finding 2013-3: CADG agrees with the finding and recommendation and indicates that it could make improvements in its records management system.
- Finding 2013-4: CADG agrees with the finding and recommendation and indicates that it could make improvements in its records management system, as well as revise the Financial Policy to appropriately reflect the reviews and approvals feasible for the CDP program.
- Finding 2013-5: CADG partially disagrees with the finding and recommendation. It indicated that in April 2012, a formalized timekeeping policy for local nationals was adopted. CADG had outlined the process of timekeeping and approvals of timesheets to document that there were sufficient approvals.

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- Finding 2013-6: CADG partially disagrees with the finding and recommendation. It indicated that the policies and procedures have been enhanced and modified throughout the life of the project. However, the key documentation to support that items are paid, received and benefit the program are present. CADG agreed that there is a necessity to train its personnel to enhance staff's awareness of these policies and procedures.
- Finding 2013-7: CADG disagrees with the finding and recommendation. It indicated that all relevant procedures were followed. All assets that were donated or transferred had the Contracting Officer's approval prior to being donated or transferred.
- Finding 2013-8: CADG disagrees with the finding and recommendation. CADG indicated that it was not feasible to maintain the funds in an interest bearing account due to the need of the funds in a timely manner. CADG stated that it is exempt from 22 CFR 226.22 because the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.
- Finding 2013-9: CADG disagrees with the finding and recommendation. It indicated that the costs incurred were considered to be allowable because they were necessary and reasonable for the proper and efficient administration of the program.
- Finding 2013-10: CADG partially disagrees with the finding and recommendation. Although CADG agreed that there is a necessity to train its personnel to enhance staff's awareness of these policies and procedures, it indicated that there were several training sessions that took place during the project period. In addition to the formal training performed each year, informal training was provided on a regular basis with team members both in Singapore and Afghanistan.
- Finding 2013-11: CADG partially disagrees with the finding and recommendation stating that due to the nature and location of the work, strict adherence to the local national recruitment and termination policy were not practical.

Review of Prior Findings and Recommendations

The only prior audits and/or reviews performed were audits in accordance with the Single Audit Act for the years ended December 31, 2009 through December 31, 2011. The audit was conducted by KPMG. Draft reports were issued to CADG during the course of our fieldwork. However, the reports had not yet been finalized and we were not provided with a copy of the draft reports for our review.



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INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENT

Report on the Fund Accountability Statement

We have audited the accompanying Fund Accountability Statement of Central Asia Development Group, Inc. (CADG) under Cooperative Agreement No. 306-A-00-09-00511-00 (Agreement) with the United States Agency for International Development (USAID) for the period March 12, 2009 through June 30, 2013, and the related notes to the Fund Accountability Statement.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Fund Accountability Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Fund Accountability Statement) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Fund Accountability Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Fund Accountability Statement, whether due to fraud or error. In making those risk assessments, the

auditor considers internal control relevant to the entity's preparation and fair presentation of the Fund Accountability Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Fund Accountability Statement.

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

Basis for Qualified Opinion

We identified several transactions totaling \$7,853,478 that were questionable based upon our review of the underlying support for the specified transactions. Included within this questioned cost amount was the loss of Federal funds totaling \$561,718 resulting from theft by manipulation of timesheets for fictitious Cash-for-Work laborers. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

Qualified Opinion

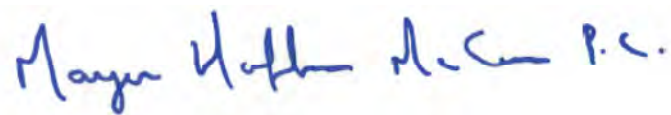
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Fund Accountability Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by CADG under the Agreement for the period March 12, 2009 through June 30, 2013 in accordance with the basis of accounting described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 16, 2013 on our consideration of CADG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CADG's internal control over financial reporting and compliance.

Board of Directors
Central Asia Development Group, Inc.
350 Orchard Road, #16-05
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This report is intended for the information of Central Asia Development Group, 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 P.C.".

Irvine, California
December 16, 2013

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Fund Accountability Statement

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	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
306-A-00-09-00511-00	\$ 265,966,468	\$ 264,054,823	\$ -	\$ -	\$ -	(3)
Interest	-	-	-	(9,613)	(9,613)	(4)
Total revenues	<u>265,966,468</u>	<u>264,054,823</u>	<u>-</u>	<u>(9,613)</u>	<u>(9,613)</u>	
Costs incurred:						
Labor costs - salaries and wages	34,162,726	31,890,892	-	324,562	324,562	(5)
Allowances	4,460,187	3,924,709	-	2,863	2,863	(6)
Travel and transportation	4,076,916	3,970,987	-	3,391,580	3,391,580	(7)
Program costs - Cash-for-Work	147,988,501	142,935,899	445,808	997,458	1,443,266	(8)
Other Direct Costs	18,520,677	17,414,650	1,396	607,199	608,595	(9)
Expensed Equipment and vehicles	2,363,120	2,368,077	-	582,187	582,187	(10)
Overhead	<u>54,394,341</u>	<u>52,035,656</u>	<u>116,273</u>	<u>1,384,152</u>	<u>1,500,425</u>	(11)
Total costs incurred	<u>265,966,468</u>	<u>254,540,870</u>	<u>563,477</u>	<u>7,290,001</u>	<u>7,853,478</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 9,513,953</u>	<u>\$ (563,477)</u>	<u>\$ (7,299,614)</u>	<u>\$ (7,863,091)</u>	(12)

See Notes to Fund Accountability Statement

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Notes to Fund Accountability Statement

For the Period March 12, 2009 through June 30, 2013

(1) Status and Operation

Central Asia Development Group Inc. (CADG) is a private limited liability corporation which is incorporated in the United States of America. The principal activities of CADG include providing goods and services through funding from the United States Agency for International Development (USAID) in the development for improvement of the social economic conditions of people in under-developed and war affected countries.

On March 12, 2009, the United States Agency for International Development (USAID) awarded Cooperative Agreement Number 306-A-00-09-00511-00 (Agreement) to Central Asia Development Group, Inc. (CADG) in the amount of \$10,000,000. The initial period of performance was through September 8, 2009. The Agreement has been modified 21 times increasing the total amount of the Agreement to \$265,966,468.

The purpose of the Agreement was to conduct activities focused on supporting the Food Insecurity Response for Urban Population (FIRUP) Program. The goal of the FIRUP Program was to relieve food insecurity for five provinces in Afghanistan, and target individuals and communities with Cash-for-Work (CFW) programs as an economic stimulus in the local communities. The five provinces were Kandahar, Lashkar Gah, Trin Kot, Gardez and Jalalabad.

Throughout the period of performance, the scope of the Agreement was changed through modifications. In September 2009, the FIRUP Program period of performance was extended through September 11, 2010 and the scope was increased to include nine new provinces. In August 2010, the name of the FIRUP Program was changed to the Community Development Program (CDP), and two new provinces were added. In February 2013, the CDP was extended to provide stabilization support to counter-narcotics efforts in Kandahar, the Kandahar Helmand Power Project, and the Gardez-Khost Road. In March 2013, Modification Number 21 extended the period of performance through August 31, 2013.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Fund Accountability Statement reflects the revenues received and expenses incurred under the Agreement. This practice differs in some respects from generally accepted accounting principles which provide for revenues to be reported when earned. The costs in the schedule are reported when incurred.

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Notes to Fund Accountability Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

(b) Foreign Currency Conversion Method

CADG converts its expenses that were paid in local currency (Afghanis) into reporting currency (U.S. Dollar) by applying an average monthly rate based upon the bank rates used to transfer funds between U.S. dollar account and Afghanis account.

(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 and applicable laws and regulations, including 22 CFR 226 and Federal Requisition Regulation (FAR) Part 31. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(3) Agreement Revenue

As of June 30, 2013, CADG has reported \$264,054,823 in revenue from USAID under the Agreement. For the period March 12, 2009 through June 30, 2013, CADG has invoiced a total of \$254,540,870 to UASID. The balance of \$9,513,953 represents advances received to cover costs that have not yet been incurred and/or billed to USAID. Also, see note 12 for details of outstanding fund balance.

(4) Interest

During the period March 12, 2009 through June 30, 2013, CADG received funds from USAID in advance of incurring allowable costs. CADG did not deposit the funds in an interest bearing account as required by the Code of Federal Regulations (CFR). This resulted in lost interest earnings of \$9,613 based upon the monthly advance cash on hand multiplied by the monthly Federal Reserve rate approved throughout the entire period of performance. See Finding 2013-8 in the Finding and Responses section of this report.

(5) Labor Costs – Salaries and Wages

CADG reported labor costs – salaries and wages in the amount of \$31,890,892 for the period March 12, 2009 through June 30, 2013. Unsupported and insufficiently supported labor costs consisted of the following. See Finding 2013-5 in the Findings and Responses section of this report. Also, see Note 11 for details of the associated overhead.

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Notes to Fund Accountability Statement

(Continued)

(5) Labor Costs – Salaries and Wages (Continued)

<u>Observation</u>	<u>Number of Errors</u>	<u>Questioned Costs</u>
Local Afghans:		
Employee did not sign the timesheet	101	\$ 60,435
Missing timesheet	205	116,597
Missing employment contract	2	51,902
Salary paid outside the contract period	4	21,641
No supporting documentation was provided	<u>1</u>	<u>45,496</u>
Subtotal local Afghans	<u>313</u>	<u>296,071</u>
Expatriates:		
Missing employment contract	1	11,753
Pay rate did not match contract	2	619
Salary paid outside the contract period	<u>1</u>	<u>16,119</u>
Subtotal expatriates	<u>4</u>	<u>28,491</u>
Total questioned labor costs – salaries and wages	<u>317</u>	<u>\$324,562</u>

(6) Allowances

CADG reported allowances in the amount of \$3,924,709 for the period March 12, 2009 through June 30, 2013. Danger pay was incorrectly calculated for 4 transactions in the total amount of \$2,863. Also, see Note 11 for details of the associated overhead.

(7) Travel and Transportation

CADG reported travel and transportation costs in the amount of \$3,970,987 for the period March 12, 2009 through June 30, 2013. Insufficiently supported travel and transportation costs consisted of the following. See the specific finding number for details related to the observation noted. Also see Note 11 for details of the associated overhead.

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Notes to Fund Accountability Statement

(Continued)

(7) Travel and Transportation (Continued)

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Cost</u>
2013-2	Lack of cost analysis to support selection of lowest airfare, or if lowest airfare was not selected, then lack of justification for not selecting lowest airfare	\$3,391,529
2013-4	Lack of management approval for travel	<u>51</u>
Total questioned travel and transportation costs		<u>\$3,391,580</u>

(8) Program Costs – Cash-for-Work

CADG reported program costs – CFW in the amount of \$142,935,899 for the period March 12, 2009 through June 30, 2013. A fraud occurred in the Zabul province, which consisted of collusion between the Operations Manager and Cashier where \$445,808 was misappropriated through manipulation of attendance sheets and creation of payment sheets for fictitious CFW laborers. CADG had filed an insurance claim for this incident. The insurance claim has not yet been paid by the insurance company. The costs of the fraud were charged to the Agreement and result in ineligible costs. See Finding 2013-1 in the Findings and Responses section of this report.

Additionally, 78 transactions in the total amount of \$997,458 were noted to contain various combinations of unsupported and insufficiently supported costs. The nature of the unsupported or insufficiently supported transactions included the following. See Finding 2013-3 in the Findings and Responses section of this report.

- Identical fingerprints or signatures for different laborers or vendors/suppliers;
- Different fingerprints or signatures for the same vendors/suppliers;
- Illegible fingerprints;
- Missing fingerprints or signatures;
- Missing worker's position on payment record
- Incorrectly calculated payments to laborers
- Missing laborer's name and/or laborer's father's name on payment record;
- Missing acknowledgement of receipt for cash received;
- Missing driver's signature on driver tracking log;
- Missing invoice;
- Missing detailed trip log for goods delivered;
- Rate for trip fluctuated significantly for the same or different driver to the same location;
and

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Notes to Fund Accountability Statement

(Continued)

(8) Program Costs – Cash-for-Work (Continued)

- Lack of management approval for payments.

Total questioned program costs – CFW costs are as followed

<u>Type of questioned costs</u>	<u>Questioned Cost</u>
Ineligible costs	\$ 445,808
Unsupported costs	<u>997,458</u>
Total questioned costs	<u>\$1,443,266</u>

See Note 11 for details related to the associated overhead.

(9) Other Direct Costs

CADG reported other direct costs in the amount of \$17,414,650 for the period March 12, 2009 through June 30, 2013. Unallowable costs, costs that were either unsupported or insufficiently supported, and a lack of adherence to procurement procedures consisted of the following. See specific finding number for details related to the observations noted. Also, see Note 11 for details related to the associated overhead.

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Cost</u>
Ineligible costs:		
2013-9	Unallowable FAR 31 expenses	\$ <u>1,396</u>
Total ineligible costs		<u>1,396</u>
Unsupported costs:		
2013-4	Unsupported or insufficient supported costs	\$293,895
2013-6	Lack adherence to procurement procedures	<u>313,304</u>
Total unsupported costs		<u>607,199</u>
Total questioned other direct costs		<u>\$608,595</u>

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Notes to Fund Accountability Statement

(Continued)

(10) Expensed Equipment and Vehicles

CADG reported expensed equipment and vehicles costs in the amount of \$2,368,077 for the period March 12, 2009 through June 30, 2013. Questioned costs were as follows. See specific finding number for details related to the observations noted.

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Cost</u>
2013-4	Unsupported or insufficient supported costs	\$ 92,883
2013-6	Lack adherence to procurement procedures	24,141
2013-7	Improper property management system	<u>465,163</u>
Total unsupported costs		<u>\$582,187</u>

(11) Overhead Costs

CADG reported overhead costs in the amount of \$52,035,656 for the period March 12, 2009 through June 30, 2013. The overhead rate of 26.13% was audited by KPMG for the year ended December 31, 2006. An overhead rate of 26.00% as included in the Agreement and remained unchanged throughout the period. The overhead rate is applied to total direct costs, excluding expensed equipment and vehicles. The overhead rate was applied to the questioned costs by cost category. A summary of associated questioned overhead costs by cost category is as follows:

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Associated Questioned Overhead</u>
Labor costs – salaries and wages (Note 5)	\$324,562	\$ 84,386
Allowances (Note 6)	2,863	744
Travel and transportation (Note 7)	3,391,580	881,811
Program costs – CFW (Note 8)	1,443,266	375,249
Other direct costs (Note 9)	608,595	<u>158,235</u>
Total questioned overhead		<u>\$1,500,425</u>

(12) Outstanding Fund Balance

As of June 30, 2013, there was an outstanding fund balance in the amount of \$9,513,953. This outstanding fund balance will be used by CADG to cover costs to be incurred during the remaining period of performance of the Agreement.



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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***

INDEPENDENT AUDITORS' REPORT

Board of Directors
Central Asia Development Group, Inc.
350 Orchard Road, #16-05
Shaw House, Singapore 238868

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Fund Accountability Statement of Central Asia Development Group, Inc. (CADG) representing revenues received and costs incurred under Cooperative Agreement No. 306-A-00-09-00511-00 with the United States Agency for International Development (USAID) for the period March 12, 2009 through June 30, 2013, and the related Notes to the Fund Accountability Statement, and have issued our report thereon dated December 16, 2013. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free from material misstatement.

Internal Control over Financial Reporting

In planning and performing our audit of the Fund Accountability Statement, we considered CADG's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances 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 CADG's internal control. Accordingly, we do not express an opinion on the effectiveness of CADG's internal control.

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. However, as described in the accompanying Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Findings and Responses as Finding 2013-1 through 2013-6 to be material weaknesses. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Finding 2013-1.

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. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2013-7, 2013-9, and 2013-10 to be significant deficiencies.

CADG's Response to Findings

CADG's response to the findings identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix B. CADG's response was not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information of Central Asia Development Group, 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.



Irvine, California
December 16, 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***

INDEPENDENT AUDITORS' REPORT

Board of Directors
Central Asia Development Group, Inc.
350 Orchard Road, #16-05
Shaw House, Singapore 238868

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Fund Accountability Statement of the Central Asia Development Group, Inc. (CADG) representing revenues received and costs incurred under Cooperative Agreement No. 306-A-00-09-00511-00 (Agreement) with the United States Agency for International Development (USAID) for the period March 12, 2009 through June 30, 2013, and the related Notes to the Fund Accountability Statement, and have issued our report thereon dated December 16, 2013. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free from material misstatement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CADG's Fund Accountability Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Finding 2013-1. 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 2013-7 through 2013-11.

CADG's Response to Findings

CADG's response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix B. CADG's response was not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information of Central Asia Development Group, 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, appearing to read "Morgan H. H. McCon P.C.", is written on a light blue background.

Irvine, California
December 16, 2013

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Findings and Responses

For the Period March 12, 2009 through June 30, 2013

2013-1: Lack of Adequate Control Over Cash-For-Work (CFW) Laborers' Attendance and Payment Reconciliations

Condition:

CADG reported an occurrence of fraud within the Zabul Province between July 2012 and December 2012. There was collusion between the Operations Manager and Cashier where \$445,808 was misappropriated through manipulation of attendance sheets for fictitious CFW laborers and creation of payment sheets for these fictitious laborers. CADG had filed an insurance claim for this incident. The insurance claim has not yet been paid by the insurance company. CADG conducted an investigation that included a review of all of the CFW payroll sheets and attendance sheets in Zabul to quantify the total amount that was misappropriated. Additionally, CADG's internal auditors selected a sample of CFW projects in other provinces to review the CFW payroll and attendance sheets and did not note any similar occurrences of fraud. Testing of CFW projects did not identify any additional possible occurrences of fraud.

Cause:

CADG had an established control whereby the Provincial Manager was to perform a secondary reconciliation review of the attendance and payment sheets to the monitoring and evaluation database before the approval of any payments. The monitoring and evaluation database is maintained by the Monitoring Officer who conducts a physical count of the actual number of laborers at the project sites. Only the Monitoring Officer and Provincial Manager have access to this database. Any discrepancies between the supporting documents and database would be identified during this review. However, the Provincial Manager failed to perform this review and instead relied upon the Operations Manager's review, who was involved in the fraud scheme.

Criteria:

CADG Finance Policies & Procedures dated April 2012, Section 400.3, *Statement of Policy*, states, in part:

"CADG as a company regards and treats fraud and theft seriously. All CADG personnel (comprising staff and contracted personnel) are responsible for ensuring strong, robust and effective fraud and theft control..."

Additionally, CADG's Provincial Manager Manual states, in part:

"...Operations Managers will verify all attendance sheets after it has been signed by the Cash For Work Supervisors, Operations Manager and Provincial Manager/Deputy Provincial Manager...Operations Manager and Provincial Manager will approve the payment sheets..."

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Findings and Responses

(Continued)

2013-1: Lack of Adequate Control Over Cash-For-Work (CFW) Laborers' Attendance and Payment Reconciliations (Continued)

Furthermore, 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...”

Effect:

Failure to follow established internal controls over the CFW cash payments to laborers resulted in the theft of Federal funds. USAID funds were misappropriated and claimed as follows. These costs have been questioned.

Theft of CFW funds	\$445,808
Associated overhead	<u>115,910</u>
Total ineligible costs	<u>\$561,718</u>

Recommendation:

- (1) We recommend that CADG either provide evidence that the amount of loss and associated indirect costs were not billed to USAID, or return \$561,718 to USAID for theft of federal funds.
- (2) We recommend that CADG provide training to its Provincial Managers and Deputy Provincial Managers involved in the CFW Program to ensure established internal controls are followed.

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Findings and Responses

(Continued)

2013-2: Lack of Cost Analysis to Determine Whether Lowest Priced Airfare was Incurred

Condition:

During the testing of international and chartered airfare costs, including costs incurred by CADG for the use of its own plane, there was no cost analysis to support that the lowest priced airfares were selected. In addition, there was no justification documented or USAID approval for when the lowest priced airfare was not selected. For a sample of airfare tested, CADG provided a listing with price comparison on some of the chartered flights and CADG's own plane. However, these rates were not supported by any source documentation, such as quotations, copies of online airfare costs, etc. Based upon this list, the CADG airfares charged were greater than those of other commercial carriers ranging from \$70 to \$270 per person. For international flights, there was no documentation to substantiate that the airfares charged were the lowest available. As a result, the excess of the amount expended over the lowest fare or reasonably priced fare cannot be determined. Total airfare costs incurred were \$3,391,529.

Cause:

CADG was unaware that it should prepare and document a cost analysis for instances when the lowest airfare was not purchased. CADG indicated that for the airfares that were not the lowest priced, it was aware that there were other airlines available and at a lower price, but they were not deemed safe for travel due to ongoing safety concerns and lack of Afghan government safety oversight capabilities. CADG refused to endanger the lives of its employees by purchasing the cheapest flight, regardless of safety. Additionally, CADG employed many local Afghans as Finance Officers and other management positions that would require travel to the various offices throughout the provinces. This would require the local Afghans to travel via plane. However, some commercial airlines flying throughout Afghanistan would not allow local Afghans on their flights.

Criteria:

48 CFR 31.205-46, *Travel Costs*, states, in part:

"...(b) Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above airfare to be allowable, the applicable condition(s) set forth above must be documented and justified..."

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Findings and Responses

(Continued)

2013-2: Lack of Cost Analysis to Determine Whether Lowest Priced Airfare was Incurred (Continued)

“(c)(2) The costs of travel by contractor-owned, -leased, or -chartered aircraft are limited to the allowable airfare described in paragraph (b) of this subsection for the flight destination unless travel by such aircraft is specifically required by contract specification, term, or condition, or a higher amount is approved by the contracting officer....”

Although the criteria indicates that costs in excess of the lowest fare are not allowable, there was no documentation available to support and/or determine what the lowest fare was at the time of travel. As such, the entire cost of airfare has been questioned.

Effect:

Lack of a cost analysis or documented support to ensure the lowest priced airfare was incurred, or justification with proper approvals for why the lowest airfare was not incurred, does not demonstrate that USAID funds were used in the most cost efficient manner. This cost analysis becomes even more important when CADG uses its own plane for transporting employees as this results in a related party transaction which is less than arms-length. Since no documentation exists to determine what the lowest airfare was at the time of travel, all airfare costs, including associated overhead have been questioned as follows:

Total airfare incurred	\$3,391,529
Associated overhead	<u>881,798</u>
Total questioned costs	<u>\$4,273,327</u>

Recommendation:

- (1) We recommend that CADG either provide documentation to USAID to support that airfare costs incurred represented the lowest airfare or justify why the lowest airfare was not selected, or return \$4,273,327 to USAID due to a lack of documentation supporting airfare costs.
- (2) We recommend that CADG develop procedures to document its decisions on determining the cost to be incurred for airfare, including seeking prior approval from USAID when the lowest airfare is not selected.

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Findings and Responses

(Continued)

2013-3: Lack of Complete Documentation to Support CFW Program

Condition:

In 78 of the 163 CFW Programs transactions tested, CADG failed to properly monitor the program to ensure all adequate documentation was obtained and maintained. A summary of the observations noted is as follows. Each of the observations noted represents a departure from CADG's CFW and disbursement policy and procedures.

<u>Observation</u>	<u>Number of Transactions with Errors</u>	<u>Amount</u>
Identical fingerprints or signature for different laborers or vendors/suppliers; different fingerprints or signature for the same vendors/suppliers; illegible fingerprints; fingerprints or signature missing; missing worker's position on payment records; incorrect payments to CFW laborers; missing laborer name and/or the laborer's father's name on payment records; missing acknowledgement of receipt for cash received; missing driver's signature on delivery tracking log; missing invoice; missing detail trip log for services delivered; trip's rate fluctuated significantly for the same or different driver to the same location without justification; and lack of management approval for documentation of payments	78	\$997,458

Details of the individual observations noted can be found in Appendix A to this report.

Cause:

Although CADG had established control procedures for its CFW Programs, management did not adequately train or closely monitor its field team members to ensure the procedures were properly followed and that all relevant documentation was obtained and maintained as required.

Criteria:

CADG Finance Policies & Procedures dated April 2012, Section 300.5-A12, *Cash-for-Work (CFW) Payments*, states, in part:

“...b. All payment records should contain the following details:

- CFW project Number
- Project title
- Worker's name

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Findings and Responses

(Continued)

2013-3: Lack of Complete Documentation to Support CFW Program (Continued)

- Worker's father's name
- Position
- Total days worked
- Daily rate
- Amount due
- Total amount due

c. Prior to the payment of CFW wages, all payment records are prepared and checked for accuracy based on the attendance taken for the particular pay period. SFO/FOs must ensure that the daily rate multiplied by the number of days worked equals the "Amount Paid" for each worker...

e. Senior Finance Officer/Finance Officer will check that a thumbprint or signature is present for every worker who was paid..."

Additionally, 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..."

Furthermore, 22 CFR 226.53, *Retention and access requirement for records*, states, in part:

"...(b) Financial records, 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 annual financial report, as authorized by USAID..."

Effect:

Incomplete or missing supporting documentation does not allow CADG to ensure that the projects had actually been completed and the vendor, suppliers, and/or laborers actually performed services related to the projects. Given that all payments are made in cash, the risk of misappropriated funds is elevated and the requirement to completely document the program as outlined in the CADG Finance Policies & Procedures is critical to support that funds were used for their intended purpose. Total questioned costs are as follows:

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(Continued)

2013-3: Lack of Complete Documentation to Support CFW Program (Continued)

CFW costs not completely supported	\$ 997,458
Associated overhead	<u>259,339</u>
Total questioned costs	<u><u>\$1,256,797</u></u>

Recommendation:

- (1) We recommend that CADG either provide the necessary CFW documentation to USAID or return \$1,256,797 for a lack of complete documentation to support the CFW Program.
- (2) We recommend that CADG provide training to its field team members to ensure they are following the requirements of the CADG Finance Policies & Procedures when documenting the costs incurred in the CFW Program.

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2013-4: Missing or Insufficient Source Documentation to Support Expenses

Condition:

CADG was unable to provide records, or provided insufficient records, to support transactions selected for testing in allowances, travel and transportation, other direct costs, and expensed equipment and vehicles. Specifically, the following observations were noted:

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Allowances:		
Danger pay calculated incorrectly	<u>4</u>	\$ <u>2,863</u>
Subtotal allowances	<u>4</u>	<u>2,863</u>
Travel and transportation:		
Lack of management approval	<u>2</u>	<u>51</u>
Subtotal travel and transportation	<u>2</u>	<u>51</u>
Other direct costs:		
Lack of management approval for payment	5	50,584
Lack of management approval for lease agreement	2	2,200
Missing vendor/supplier agreement	6	53,772
Missing receiving inspection report	11	95,571
Missing acknowledgment of cash receipt	2	36,544
Missing invoice and lack of management approval	1	4,730
Missing invoice	1	593
No documentation provided	1	7,050
Missing acknowledgment of receipt and missing receiving inspection report	2	14,402
Missing purchase requisition	2	7,750
Missing vendor/supplier agreement and lack of management approval for payment	1	9,900
Missing purchase order and missing purchase requisition	1	10,000
Missing purchase requisition and missing invoice	1	30
Missing purchase order, missing receiving inspection report, and invoice dates were not translated	<u>1</u>	<u>769</u>
Subtotal other direct costs	<u>37</u>	<u>293,895</u>

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(Continued)

2013-4: Missing or Insufficient Source Documentation to Support Expenses (Continued)

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Expensed equipment and vehicles:		
Missing receiving inspection report	2	\$ 23,532
Missing invoice and missing receiving inspection report	2	41,500
Missing receiving inspection report and invoice is illegible	1	599
No documentation provided	1	1,858
Missing receiving inspection report and missing acknowledgment of receipt	4	7,356
Missing receiving inspection report and invoice date was not translated	2	17,975
Missing purchase requisition, missing receiving inspection report, and invoice date is not translated	<u>1</u>	<u>63</u>
Subtotal expensed equipment and vehicles	<u>13</u>	<u>92,883</u>
Total costs for which missing or insufficient support was provided	<u>56</u>	<u>\$389,692</u>

Cause:

Due to the magnitude of the program involved, management did not closely monitor all aspects of the program and sometimes failed to perform its responsible duties. In addition, management relied on field personnel to adequately follow the control procedures in place. However, field personnel did not always obtain, complete, or maintain the required documentation due to difficulties in operating the program in a hostile environment.

Criteria:

22 CFR 226.53, *Retention and access requirement for records*, states, in part:

“...(b) Financial records, 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 annual financial report, as authorized by USAID...”

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2013-4: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Additionally, 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...”

Furthermore, CADG Finance Policies & Procedures dated April 2012, Section 300.5-A, *General Guidelines*, states, in part:

“...300.5-A2 *Purchase Requisition (PR)*...

b. To initiate a purchase of goods or services, a purchase requisition is raised by the requesting employee...

f. All purchase requisitions, however, do not move forward in the process without initial approval from the Provincial Manager or Deputy Provincial Manager, or other Senior Manager...

300.5-A3 Procurement Flow

m. If the vendor is unable to provide an official receipts or invoices, the FO must filled-out the “Statement in lieu of no receipt” upon making payment. Approval from PM/DPM and acknowledgement from the vendor must be obtained before releasing payment...

300.5-A5 Receiving goods

a. When a vendor delivers consumables for a project, a Receiving Inspection Report (RIR) is required to be filled-up upon receiving goods...

300.5-A7 Property Lease Contracts

a. A standard Property Lease Contract is used for CADG properties, including houses, guest houses, storage facilities, parking lots, and other real properties...

c. The Property Lease Contract must be completed in full, signed by the property owner, and then approved and signed by the Chief of Party...”

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2013-4: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Effect:

Failure to maintain adequate supporting documentation resulted in an inability to demonstrate that costs incurred were allowable, allocable and related to the Agreement. Total questioned costs are as follows:

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Associated Overhead</u>	<u>Total Questioned Cost</u>
Allowances	\$ 2,863	\$ 744	\$ 3,607
Travel and transportation	51	13	64
Other direct costs	293,895	76,413	370,308
Expensed equipment and vehicles	<u>92,883</u>	<u>-</u>	<u>92,883</u>
Total questioned costs	<u>\$389,692</u>	<u>\$77,170</u>	<u>\$466,862</u>

In addition, the sampled costs for allowances were statistically selected. Had the results of our testing been extrapolated to the population, the total questioned costs, including overhead, for allowances would have been \$18,103. However, in the recommendation below, we are taking the conservative approach by not projecting the results to the population, but asking CADG to take action on the actual questioned costs identified in the sample.

Recommendation:

- (1) We recommend that CADG either provide adequate documentation to USAID or return \$466,862 for costs in which documentation was missing or insufficient.
- (2) We recommend that CADG provide training to all personnel to ensure they are following the requirements of the CADG Finance Policies & Procedures by obtaining, completing and maintaining all documentation as required.

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(Continued)

2013-5: Lack Adherence to Timesheet Policy and the Terms of Employment Contract

Condition:

For the 374 local Afghans and 187 Expatriates timesheets tested, the following exceptions were noted:

<u>Observation</u>	<u>Number of Errors</u>	<u>Questioned Costs</u>
Local Afghans:		
Employee did not sign the timesheet	101	\$ 60,435
Missing timesheet	205	116,597
Missing employment contract	2	51,902
Salary paid outside the contract period	4	21,641
No supporting documentation was provided	<u>1</u>	<u>45,496</u>
Subtotal local Afghans	<u>313</u>	<u>296,071</u>
Expatriates:		
Missing employment contract	1	11,753
Pay rate did not match contract	2	619
Salary paid outside the contract period	<u>1</u>	<u>16,119</u>
Subtotal expatriates	<u>4</u>	<u>28,491</u>
Total questioned labor costs – salaries and wages	<u>317</u>	<u>\$324,562</u>

In addition, there were 169 instances of local Afghan timesheets that were not approved by the immediate supervisor, but were by other management level personnel, such as the Executive Assistant, Administrative Officer or Provincial Manager. Furthermore, of the 187 expatriates tested, all timesheets were approved by the Human Resource Manager located in Singapore instead of the immediate supervisor in Afghanistan. Although the timesheets in all of these instances were not approved by the individuals required, they were approved by other management employees. As such, no costs have been questioned related to approving timesheets by supervisors.

Cause:

Management and field personnel were overwhelmed by the number of employees hired under the programs, causing a breakdown in following established timekeeping and record retention procedures. This condition occurred throughout the audit period, for a variety of personnel and supervisors. Although policy and procedures were developed, management did not closely monitor its employees to ensure the policy was implemented, including proper retention of local Afghans' timesheets.

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(Continued)

2013-5: Lack Adherence to Timesheet Policy and the Terms of Employment Contract (Continued)

Criteria:

CADG Donor Funded Projects – Timesheet Policy, Section 4, *Parameters*, states, in part:

“A. Completion of bi-monthly Timesheets...

6) Timesheets will be completed and submitted, electronically, to their reporting managers...

B. Submission of Timesheets...

2) Timesheets must be converted to PDF or printed off, scanned and then emailed to reporting managers to ensure corrects can only be made by the individual contractor.

3) Contractors must seek to obtain their reporting manager signature on all timesheets at least once per month.

4) Original copies of all electronically submitted timesheets, signed by both the contractor and reporting manager, will be sent to Singapore HR on a monthly basis...”

Additionally, 48 CFR 31.205-6, *Compensation for personal services*, states, in part:

“...(3) The compensation must be based upon and conform to the terms and conditions of the contractor’s established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment...”

Furthermore, 22 CFR 226.53, *Retention and Access Requirements for Records*, states, in part:

“...(b) Financial records, 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 annual financial report, as authorized by USAID...”

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2013-5: Lack Adherence to Timesheet Policy and the Terms of Employment Contract (Continued)

Effect:

Missing employee signatures on timesheets raises doubt as to whether the employees actually worked the hours as detailed. Additionally, timesheets not approved by the employee's immediate supervisor, or approved by the Human Resource Manager located in Singapore, also raises doubt as to whether the approver actually had knowledge of the hours worked by the employee. Additionally, failure to maintain adequate supporting documentation resulted in an inability to demonstrate that costs incurred were allowable, allocable, and related to the Agreement. Total questioned labor costs – salaries and wages are as follows:

Questioned labor costs – salaries and wages	\$324,562
Associated overhead	<u>84,386</u>
Total questioned costs	<u>\$408,948</u>

Recommendation:

- (1) We recommend that CADG either provide the missing documentation, proper approvals and evidence to support that the personnel costs were properly allocable to the Agreement, or return \$408,948 for unsupported labor costs – salaries and wages.
- (2) We recommend that CADG provide training to all personnel to ensure they understand the timekeeping and record retention procedures.

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2013-6: Lack of Adherence to Procurement Procedures

Condition:

CADG was unable to provide records, or provided insufficient records, to support procurement efforts for testing in the other direct costs and expensed equipment and vehicles cost categories. Specifically, the following observations were noted:

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Other direct costs:		
Missing justification for sole source selection	1	\$ 15,500
Justification provided was insufficient to determine why the awarded vendor was selected	1	35,136
Missing Cost Price Analysis & Competition Form	1	2,373
Missing Cost Price Analysis & Competition Form, and quotations	4	192,052
Missing justification for sole source selection; missing acknowledgement of receipt	1	11
Missing Cost Price Analysis & Competition Form, and missing quotations; missing acknowledgement of receipt and purchase requisition	2	3,000
Missing Cost Price Analysis & Competition Form, and quotations; missing receiving inspection report	2	25,300
Missing quotations, purchase order and purchase requisition	1	5,427
Missing Cost Price Analysis & Competition Form; missing purchase order, receiving inspection report, and acknowledgment of receipt	1	1,857
Missing Cost Price Analysis & Competition Form; missing acknowledgement of receipt	1	20,000
Missing Cost Price Analysis Competition Form, and quotations; missing purchase requisition, purchase order, receiving inspection report and no dates on invoice	<u>1</u>	<u>12,648</u>
Subtotal other direct costs	<u>16</u>	<u>313,304</u>
Expensed equipment and vehicles:		
Missing Cost Price Analysis & Competition Form, and missing receiving inspection report	1	15,600
Missing quotations	1	7,400
Missing Cost Price Analysis & Competition Form; lack of management approval, missing purchase requisition, purchase order, receiving inspection report and payment voucher	<u>1</u>	<u>1,141</u>
Subtotal expensed equipment and vehicles	<u>3</u>	<u>24,141</u>
Total costs for which procurement procedures were not followed	<u>19</u>	<u>\$337,445</u>

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2013-6: Lack of Adherence to Procurement Procedures (Continued)

Additionally, there was no documentation to support that CADG allowed for open and free competition to the maximum extent practical, and that when such open and free competition was not practical, justifications to that effect were not documented. CADG did not advertise the program to potential vendors within the area to allow for competition, but did obtain quotations from vendors and utilized preferred vendors based on reputation and quality of items purchased. From the quotations obtained, CADG did select the lowest vendor or provided appropriate justification as to why the lowest vendor was not selected. Since evidence did exist to indicate that quotes were obtained, no costs have been questioned related to open and free competition.

Cause:

Due to the magnitude of the program involved, management did not closely monitor all aspects of the program and sometimes failed to perform its responsibilities. In addition, management relied on field personnel to follow the control procedures in place. However, field personnel did not always obtain, complete, or maintain the required documentation due to difficulties in operating the program in a hostile environment.

CADG indicated that in some instances, it did not create and distribute solicitations for goods and services procured during the program. Instead, the field employees obtained quotes from different vendors who appeared to be established in the community and/or had a reputable business. CADG felt that it could not publicize the work being performed in certain provinces due to potential threats surrounding the work.

Criteria:

22 CFR 226.46, *Procurement records*, states:

“Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:

- (a) Basis for contractor selection,
- (b) Justification for lack of competition when competitive bids or offers are not obtained, and
- (c) Basis for award cost or price.”

Additionally, 22 CFR 226.43, *Competition*, states, in part:

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2013-6: Lack of Adherence to Procurement Procedures (Continued)

"All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition...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..."

Furthermore, 22 CFR 226.53, *Retention and Access Requirements for Records*, states, in part:

"...(b) Financial records, 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 annual financial report, as authorized by USAID..."

CADG Finance Policies & Procedures dated July 2011, Section 300.5-A3, *Procurement Flow*, states, in part:

"...c) For goods or services that cost the equivalent of \$500 USD or more, three written quotations must be obtained from vendors. Bids are compiled using the Cost Price Analysis & Competition Form (CPA)..."

f)...When there are only two vendors available to give quotations, the CPA is completed with a notation in the areas reserved for the third vendor stating that only two were available and explaining why a third bid could not be obtained..."

Effect:

Lack of adherence to procurement procedures can result in the acquisition of goods and/or services that are not competitively priced. In a hostile environment, adherence to procurement policies and procedures are critical in order to ensure funds expended were reasonable, allowable and allocable. Total questioned costs are as follows:

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Associated Overhead</u>	<u>Total Questioned Cost</u>
Other direct costs	\$313,304	\$81,459	\$394,763
Expensed equipment and vehicles	<u>24,141</u>	<u>-</u>	<u>24,141</u>
Total questioned costs	<u>\$337,445</u>	<u>\$81,459</u>	<u>\$418,904</u>

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2013-6: Lack of Adherence to Procurement Procedures (Continued)

Recommendation:

- (1) We recommend that CADG either provide adequate documentation to USAID or return \$418,904 for costs in which there was a demonstrated lack of adherence to procurement procedures.
- (2) We recommend that CADG provide procurement training to all personnel to ensure that established procedures related to competitive bidding are followed and that documentation supporting procurement decisions is retained.

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2013-7: Lack of Support for Transferred, Donated and Damaged Assets

Condition:

CADG maintained a tracking log for its assets purchased in the 23 provinces where the Community Development Program (CDP) was operated. During the testing of equipment reconciliations, there were 16 assets with a cost of \$284,285 that were transferred from one province to another province as follows. However, the asset tracking log was not properly updated to show that the transferred out assets were in the new location. As such, there was a lack of an audit trail to confirm whether these assets had been properly delivered and/or maintained at the new locations.

<u>Original Province</u>	<u>Transferred To</u>	<u>Asset ID</u>	<u>Item Description</u>	<u>Amount</u>
Dand-Daman	Kandahar	C136-DD-8926-0006	Generator	\$ 15,500
Ghanzi	Zabul	C136-GN-8926-0004	Generator	15,600
Ghanzi	Zabul	C136-GN-8926-0047	Generator	14,000
Khost	Kabul	C136-KO-8926-0003	Generator	15,100
Kunar	Kabul	C136-KU-8926-0017	Generator	23,340
Laghman	Kabul	C136-LA-8926-0006	Generator	30,805
Laghman	Kabul	C136-LA-8926-0007	Generator	23,090
Nangarhar	Kabul	C136-NG-8926-0043	Generator	32,700
Nimrus	Zabul	C136-NR-8926-0030	Generator	18,750
Paktika	Kabul	C136-PK-8926-0024	Generator	13,400
Paktika	Kabul	C136-PK-8926-0031	Generator	13,800
Paktia/Gardez	Khost	C136-PT-8926-0007	Generator	14,600
Paktia/Gardez	Khost	C136-PT-8926-0034	Generator	17,500
Paktia/Gardez	Kabul	C136-PT-8926-0039	Generator	9,900
Wardak	Kabul	C136-WD-8926-0002	Generator	14,700
Wardak	Kabul	C136-WD-8926-0094	Generator	<u>11,500</u>

Total missing equipment \$284,285

Additionally, there were 21 assets with a cost of \$379,988, which were indicated as having been donated, and 3 assets with a cost of \$44,250, which were indicated as damaged. However, CADG failed to report these donated or damaged assets to USAID. The donated and damaged assets were as follows. Additionally, the total fair market value of the donated and/or damaged assets is \$180,878.

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2013-7: Lack of Support for Transferred, Donated and Damaged Assets (Continued)

<u>Province</u>	<u>Asset ID</u>	<u>Item Description</u>	<u>Amount</u>
Donated assets:			
Badghis	C136-BG-8926-0011	Generator	\$ 16,720
Badghis	C136-BG-8926-0012	Generator	20,900
Dand-Daman	C136-DD-8926-0005	Generator	13,000
Daikundi	C136-DK-8926-0006	Generator	19,800
Daikundi	C136-DK-8926-0022	Generator	14,000
Farah	C136-FR-8926-0011	Generator	16,500
Farah	C136-FR-8926-0028	Generator	14,900
Ghor	C136-GO-8926-0001	Generator	21,400
Ghor	C136-GO-8926-0002	Generator	17,220
Herat	C136-HR-8926-0047	Generator	18,500
Herat	C136-HR-8926-0048	Generator	17,500
Kandahar	C136-KN-8926-0060	Generator	26,900
Laghman	C136-LG-8926-0032	Generator	13,200
Nangarhar	C136-NG-8926-0005	Generator	16,548
Paktika	C136-PK-8926-0025	Generator	13,400
Paktika	C136-PK-8926-0034	Generator	14,200
Uruzgan	C136-UR-8926-0005	Generator	12,900
Uruzgan	C136-UR-8926-0039	Generator	26,900
Uruzgan	C136-KN-8926-0060	Generator	26,900
Zabul	C136-ZB-8926-0016	Generator	21,200
Zhari-Panjwaye	C136-ZP-8926-0008	Generator	<u>17,400</u>
Total donated assets			<u>379,988</u>
Damaged assets:			
Khost	C136-KO-8926-0004	Generator	15,100
Nangarhar	C136-NG-8926-0011	Generator	13,200
Zabul	C136-ZB-8926-0003	Generator	<u>15,950</u>
Total damaged assets			<u>44,250</u>
Total donated and damaged assets			<u>\$424,438</u>

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2013-7: Lack of Support for Transferred, Donated and Damaged Assets (Continued)

Cause:

CADG did not have sufficient management capacity to monitor and ensure transferred assets were properly tracked as required in its finance manual. The personnel responsible for tracking the assets did not update the records to reflect the new location to which the assets were transferred. In addition, failure to inform USAID of the donated and damaged equipment was due to CADG being unaware that formal notification to USAID was required. Finally, periodic repair and maintenance procedures were not in place to prevent equipment from being damaged. The fair market value was determined through online queries of used equipment.

Criteria:

22 CFR 226.34, *Equipment*, states, in part:

“...(f) The recipient’s property management standards for equipment acquired with Federal Funds and federally-owned equipment shall include all of the following:...

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency with whose funds the equipment was purchased...

(h) USAID reserves the right to transfer the title to the Federal Government or to a third party named by the Federal Government when such third party is otherwise eligible under existing statutes. Such transfer shall be subject to the following standards:

(1) The equipment shall be appropriately identified in the award or otherwise made known to the recipient in writing.

(2) USAID shall issue disposition instructions within 120 calendar days after receipt of a final inventory. The final inventory shall list all equipment acquired with award funds and federally-owned equipment. If USAID fails to issue disposition instructions within the 120 calendar day period, the recipient shall apply the standards of this section, as appropriate.

(3) When USAID exercises its right to take title, the equipment shall be subject to the provisions for federally-owned equipment.”

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2013-7: Lack of Support for Transferred, Donated and Damaged Assets (Continued)

CADG Finance Policies & Procedures dated April 2012, Section 600.5-A4, *Transfer or Disposal of Fixed Assets*, states in part:

“...c. Verification of the asset disposal or transfer needs to be done by the PM/DPM. The form is then routed to AFM/FM and then to SFT for final approval by the President.

d. Upon completion of the approval process, the PM/DPM will update Fixed Asset Register on the changes...”

Additionally, CADG Finance Policies & Procedures dated April 2012, Section 600.5-A5, *Reporting Fixed Assets*, states in part:

“a. On a monthly basis, the Fixed Assets (FA) Supervisor is required to perform physical asset cycle count on a rotational basis, covering at least 30% of the total tagged assets country wide each month using the barcode scanner. When visiting a province, the FA Supervisor performs a full physical count of the asset inventory.

b. Updating of Fixed Asset Register in the province and centralized Fixed Asset database in Kabul is required if any of the following changes take place:

- Location of the equipment
- Condition of the equipment
- Disposal or transfer of equipment...”

Effect:

Without maintaining evidence of equipment transfers and obtaining approval from USAID for donated and/or damaged equipment, assets could be sold and the proceeds used for something other than the objective of the Agreement without USAID’s knowledge. The cost of the transferred assets that were missing was \$284,285. Total questioned costs of assets transferred and the fair market value of donated and/or damaged assets were \$465,163.

Recommendation:

- (1) We recommend that CADG provide evidence to USAID to support that all of the equipment identified in the finding was maintained, or disposed of, in compliance with the Agreement and CFR or return \$465,163 for the unsupported transferred, donated and damaged assets.

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2013-7: Lack of Support for Transferred, Donated and Damaged Assets (Continued)

- (2) We recommend that CADG provide training to field personnel regarding the provisions of its CADG Finance Policies & Procedures related to equipment.
- (3) We recommend that CADG establish procedures to ensure that all disposed equipment be properly tracked and reported as required by the Agreement and 22 CFR 226.34.

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2013-8: Advances Not Maintained in an Interest Bearing Account

Condition:

CADG has received funds under the Agreement in advance of incurring allowable costs. The funds received were not maintained in an interest bearing account.

Cause:

CADG was not familiar with the CFR requirements related to maintaining advances of Federal funds in an interest bearing account.

Criteria:

22 CFR 226.22, *Payment*, states, in part:

“...(k) Recipients shall maintain advances of Federal funds in interest bearing accounts...”

Effect:

Failure to deposit advances in an interest bearing account resulted in a loss of interest income that could have been used to fund allowable costs under the Agreement. The estimated lost interest was \$9,613, which was calculated based upon the monthly advance cash on hand multiplied by the monthly Federal Reserve rate approved throughout the entire period of performance.

Recommendation:

- (1) We recommend that CADG return \$9,613 to USAID representing the amount of interest that would have been earned had the advance funds been maintained in an in an interest bearing account as required.
- (2) We recommend that CADG establish a policy requiring that all advances of Federal funds be deposited into an interest bearing account.

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Findings and Responses

(Continued)

2013-9: Unallowable Costs Were Charged to the Agreement

Condition:

CADG included penalties, gifts, and celebrations expenses as part of other direct costs and charged the following costs to the Agreement:

<u>Observation</u>	<u>Number of transactions with Errors</u>	<u>Questioned Cost</u>
Penalty fee for reissued Visa	1	\$ 461
Gifts	2	45
Ceremony expenses	1	890
Total ineligible expenses	4	\$1,396

Cause:

CADG was unfamiliar with applicable prohibitions on these types of costs.

Criteria:

48 CFR 31.205-15, *Fines, penalties, and mischarging costs*, states, in part:

“(a) Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable....”

Additionally, 48 CFR 31.205-13, *Employee morale, health, welfare, food service, and dormitory costs and credits*, states, in part:

“...(b) Costs of gifts are unallowable...”

Furthermore, 48 CFR 31.205-14, *Entertainment costs*, states, in part:

“Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable....”

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Findings and Responses

(Continued)

2013-9: Unallowable Costs Were Charged to the Agreement (Continued)

Effect:

CADG incurred \$1,396 of ineligible costs which are unallowable costs per 48 CFR Part 31. Reporting unallowable costs as legitimate costs raises concerns about the propriety of CADG's billing and the extent of such charges. Total questioned costs were as follows:

Unallowable costs	\$1,396
Associated overhead	<u>363</u>
Total ineligible costs	<u>\$1,759</u>

Recommendation:

- (1) We recommend that CADG either provide support and an explanation to USAID as to why the unallowable costs should be allowable, or return \$1,759 in ineligible costs.
- (2) We recommend that CADG provide training to its employees regarding the cost principles outlined in 48 CFR Part 31 and develop more effective policies and procedures to prevent ineligible costs from being charged as reimbursable costs.

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Findings and Responses

(Continued)

2013-10: Lack of Adherence to Policies and Procedures

Condition:

CADG did not properly follow its established policies and procedures when administering the Agreement. A total of 982 transactions were tested and the following observations were noted where policies and procedures were not followed. These errors did not result in questioned costs as other evidence existed for review to support that the cost was reasonable, allowable and allocable to the Agreement.

<u>Observation</u>	<u>Number of transactions with Errors</u>
Travel and transportation:	
Purpose of the travel was not documented	<u>17</u>
Subtotal travel and transportation	<u>17</u>
Program costs – CFW:	
Approval of payment was by a different management employee than that per CADG policy	23
Approval of payment was by a different management employee than that per CADG policy; missing cash advance request form	6
Approval of payment was by a different management employee than that per CADG policy; cash advance form not complete	2
Approval of payment was by a different management employee than that per CADG policy; missing CFW project number on payment record; missing cash advance request form	1
Approval of payment was by a different management employee than that per CADG policy; no liquidation date on the cash advance form	2
Approval of payment was by a different management employee than that per CADG policy; missing reference to cash advance request form on payment voucher	1
Missing cash advance request form	2
Missing reference to cash advance request form on payment voucher	3
Purchase requisition date is after contract date	1
Missing CFW project number on payment record; missing cash advance request form	1
Signature on the payment voucher is different from the signature on the invoice	<u>1</u>
Subtotal program costs – CFW	<u>43</u>

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Findings and Responses

(Continued)

2013-10: Lack of Adherence to Policies and Procedures (Continued)

<u>Observation</u>	<u>Number of transactions with Errors</u>
Other direct costs:	
Approval of payment was by a different management employee than that per CADG policy	3
Approval of payment was by a different management employee than that per CADG policy; no liquidation date on the cash advance form	1
Approval of payment was by a different management employee than that per CADG policy; missing cash advance request form	1
Approval of payment was by a different management employee than that per CADG policy; invoice date and payment voucher date were before the purchase order date	1
Missing cash advance request form	4
Contract date was before the purchase order date	1
Invoice date was before the purchase order date; cash advance request form was not liquidated within the required timeframe	1
Missing signed justification for sole source	1
Cost Price Analysis & Competition Form date was before the purchase requisition date	1
Management approval was after payment	1
Invoice date was before the purchase order date	7
Purpose of the purchase was not documented	<u>2</u>
Subtotal other direct costs	<u>24</u>
Expensed equipment and vehicles:	
Approval of payment was by a different management employee than that per CADG policy	3
Missing cash advance request form	10
Missing documentation of who was assigned laptops	2
Missing third quotation	2
Invoice date was before the purchase order date	1
Invoice date was before the purchase requisition date	1
Invoice date was after the payment voucher date	2
Missing cash advance request form; management approval was after the payment voucher date	1
Missing cash advance request form; invoice date was after the payment voucher date	1
Missing signature on cash advance form documenting receipt of advance	<u>1</u>
Subtotal expensed equipment and vehicles	<u>24</u>
Total number of errors due to lack of adherence to policies and procedures	<u>108</u>

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Findings and Responses

(Continued)

2013-10: Lack of Adherence to Policies and Procedures (Continued)

Cause:

This condition occurred because management did not effectively monitor the program to ensure that all required approvals and documentation were properly obtained, completed and maintained.

Criteria:

CADG's Community Development Program Finance Training Slides of training provided at the beginning of the project, slides 13 to 15, states, in part:

"Procurement Value – Between USD500.00 and USD4,999.99

- 1) Raise PR*
- 2) Obtain minimum three written quotes
- 3) Cost Price Competition or Sole Source Justification Form
- 4) For Purchase Order – Two levels of approvals required...

* PR [Purchase Requisition] Form need to be raised for ALL purchases

Procurement Value – Between USD5,000.00 and USD19,999.99

- 1) Raise PR
- 2) Obtain minimum three written quotes
- 3) Cost Price Competition or Sole Source Justification Form
- 4) For Purchase Order – Three levels of approvals required...

Procurement Value – Above USD20,000.00

- 1) Raise PR
- 2) Obtain minimum three written quotes
- 3) Cost Price Competition or Sole Source Justification Form
- 4) For Purchase Order – Four levels of approvals required..."

CADG's Community Development Program Finance Training Slides of training provided at the beginning of the project, slide 12, documents a flow chart of the procurement process. According to the flowchart, the order of the procurement process is as follows:

- Purchase requisition
- Outsource for suppliers
- Obtain three written quotations, or one written quotation and complete a Sole Source Justification Form
- Prepare Cost Price Analysis & Competition Form, indicate why a third quotation was not obtained
- Purchase order

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Findings and Responses

(Continued)

2013-10: Lack of Adherence to Policies and Procedures (Continued)

- Supplier invoice, receipt, or contract
- Justification letter
- End of documentation

CADG Finance Policies & Procedures dated July 2011, states, in part:

“...200.5-A1, Cash Advances...”

(c) Cash liquidations under this policy must be liquidated within 15 days of the transaction...

300.5-A2, Purchase Requisition...

(b) To initiate a purchase of goods or services, a purchase requisition is raised by the requesting employee...

(f) All purchase requisitions, however, do not move forward in the process without initial approval from the Provincial Manager or Deputy Provincial Manager, or other Senior Manager...

300.5-A3, Procurement Flow...

(c) For goods or services that cost the equivalent of \$500 USD or more, three written quotations must be obtained from vendors. Bids are compiled using the Cost Price Analysis & Competition Form (CPA), and the winning bid is chosen.

(d)...When there are only two (2) vendors available to give quotations, the CPA is completed with a notation in the area reserved for the third vendor stating that only two were available...

300.5-A6, Property Lease Contracts...

(c) The Property Lease Contract must be completed in full, signed by the property owner, and then approved and signed by the Chief of Party...

300.5-A11, Cash-for-work (CFW) Payments...

- (b) All payment records should contain the following details:
- CFW project number...”

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Findings and Responses

(Continued)

2013-10: Lack of Adherence to Policies and Procedures (Continued)

CADG Finance Policies & Procedures dated April 2012, Section 200.5-A1, *Cash Advances*, states, in part:

“...(e) Cash liquidations under this policy must be liquidated within 30 days of the transaction...”

Effect:

Failure to follow the developed control procedures in place and maintain all records can result in CADG’s inability to demonstrate that projects were completed and USAID funds were used for their intended purpose.

Recommendation:

We recommend that CADG provide training to all personnel related to its Finance Policies & Procedures to ensure all established policies and procedures are followed, program documentation is properly maintained, and adequate authorizations are obtained.

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Findings and Responses

(Continued)

2013-11: Lack Adherence to Employment Policy for Local Afghans

Condition:

Personnel files for 43 local Afghan employees contained no evidence that a background check and performance evaluations were performed. Additionally, résumés were missing in 18 of the files.

Cause:

CADG relies on the local Afghans for recommendations of potential employees. CADG does not conduct performance evaluations for local Afghan managers. In instances where CADG did not obtain a résumé, it claimed that it questioned employees about their work history to determine that the individuals were qualified for the position. However, CADG failed to document such inquiries in personnel files.

Criteria:

CADG Afghanistan Hiring and Termination Procedure Document, section 2, *Process*, states, in part:

“...Each resume we receive is passed on to the PM/DPM or other manager, seeking to fill the vacancy in question. Here is a short list of the materials used during recruitment.

- Position Requisition form
- Job Description
- Job Advertisement - details & date
- Number of applications received
- Shortlisted candidate names
- Interview summary report
- Offered to (name/s)
- Name of accepting candidate

After receiving resumes, we select most likely candidates for a given position and then review their personal information and histories for any indications that they may cause problems. This vetting step is new.”

Additionally, CADG Afghanistan Hiring and Termination Procedure Document, section 3, *Proper Vetting & Background Checks*, states, in part:

“Proper vetting requires the following information:

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Findings and Responses

(Continued)

2013-11: Lack Adherence to Employment Policy for Local Afghans (Continued)

Item	Reason
Personal Identity:	Protect against identity theft and fraud using a cross-referencing check over a number of data sources.
Employer References	Obtain personal references from sources provided by a prospective employee, such as previous supervisors, customers, suppliers.
Employment History	Confirm past employment history, periods of (un)employment, positions held and reason for leaving (where available).
Qualifications	Provide protection against bogus educational and professional qualifications by validating them with the relevant institutions.
Memberships	Provide protection against bogus professional memberships by validating them with the relevant granting body.
Directorships	Validate current and previous Directorships and highlights any disqualifications that are in place.
Criminal Records Checks	Check with the Criminal Record Bureau for the existence of any current criminal record. Additional records checks should be carried out through MOI. “

Furthermore, CADG Human Resources Policies for International Contractors, International Contractors Based in Afghanistan, Section 12, *Access to Personnel Files*, states, in part:

“CADG maintains a personnel file on each contractor. The personnel file includes information such as the contractor’s job application, resume, records of training, documentation of performance appraisals and salary increases, and other employment records...”

Effect:

Lack of obtaining resumes and background documentation for the local Afghans can lead to CADG hiring individuals who may not be qualified for the position or who may be affiliated with a terrorist group. Additionally, not performing regular performance evaluations can lead to employees not benefiting the program and are not meeting the minimum standard required of the position.

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Findings and Responses

(Continued)

2013-11: Lack Adherence to Employment Policy for Local Afghans (Continued)

Recommendation:

We recommend that CADG provide training to field personnel related to its Hiring and Termination Procedures Document to ensure that background checks are performed, résumés are obtained, performance evaluations are performed on a reoccurring basis, and personnel files are maintained.

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Detailed Results for Finding 2013-3

For the Period March 12, 2009 through June 30, 2013

The following represents the details of the individual errors identified as a result of testing the CFW Program.

<u>Observation</u>	<u>Number of Transactions with Errors (a)</u>	<u>Questioned Cost</u>
Missing worker's position on payment records	2	\$ 2,347
Fingerprint is illegible	1	89
Fingerprints are similar	6	5,722
Missing fingerprints	2	7,267
Missing worker's position on payment record; missing fingerprints	1	112
Fingerprints are similar; missing fingerprints	1	115
Fingerprints are similar; missing finger prints; payment to worker is incorrectly calculated	2	5,720
Missing father's name on payment record	6	1,303
Missing fingerprint and missing father's name on payment record	1	103
Fingerprints are similar; missing father's name on payment records	1	1,076
Missing fingerprints; missing worker's name on payment record; missing worker's position on payment record; payment is incorrectly calculated; amount paid does not match supporting documentation	1	3,273
Missing worker's name on payment record; missing father's name on payment record	1	811
Missing worker's position on payment record; similar fingerprints; payment to worker is incorrectly calculated	1	785
Missing father's name on payment record; missing worker's position on payment record; payment to worker is incorrectly calculated	1	4,638
Missing father's name on payment record; missing worker's name on payment record	1	2,145
Missing CFW project number on payment record; missing worker's position on payment record	1	325
Missing father's name on payment record; missing worker's position on payment record	1	2,013
Missing father's name on payment record; changes made with white out	1	625
Missing father's name on payment record; missing fingerprints	1	651
Worker's name on timesheet does not match worker's name on contract	1	300
Missing acknowledgment of receipt	4	44,120
Missing driver's signature on tracking log	1	2,274
Different fingerprints and signatures for the same driver	1	3,337
Missing invoice	3	58,274
Missing driver's signature on tracking log	1	359
Missing invoice; missing CFW project description	1	3,462
Missing either acknowledgment of receipt or invoice for multiple payments under one payment voucher; signature for acknowledgment of receipt by vendor appears different from vendor signature on original quotation	1	27,410
Payment made to employee who did not request a cash advance and only supplier's invoice documented; missing supplier's acknowledgement of		

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Detailed Results for Finding 2013-3

(Continued)

<u>Observation</u>	<u>Number of Transactions with Errors (a)</u>	<u>Questioned Cost</u>
cash receipt for service performed	2	\$ 42,182
Unable to determine who is the individual that received payment	1	14,364
Missing invoice; missing detailed tracking log showing mileage and time to and from location for driver delivering materials; inconsistent rate used for same divers going to the same location on different date (in one extreme case rate ranged from \$15 to \$1,100 per trip); identical fingerprints or signature for different drivers; different fingerprints or signature for the same driver; payment to drivers was usually a few months after the service performed (raises doubt whether the drivers can recall the number of trips actually performed); date cash paid to driver is different from the date the driver signed the acknowledgement of cash receipt	28	701,547
Lack of management approval	1	40,262
Missing invoice; missing detailed tracking log showing mileage to and from location for drivers delivering material; inconsistent rate used for drivers going to the same location; tracking logs were modified using pen or whiteout and the number of trips were modified to two decimal places (e.g. 32.38) in order to match the payment amount; and different dates for date paid and acknowledgment of receipt	<u>1</u>	<u>20,447</u>
Total questioned costs	<u>78</u>	<u>\$997,458</u>

- (a) The number of transactions with errors represents the number of instances this observation occurred for the individual sample. An individual sample could include multiple timesheets.

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Response to Findings

For the Period March 12, 2009 through June 30, 2013

Included on the following pages is CADG's response received to the findings identified in this report. In addition to the narrative response, CADG provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.



CADG MANAGEMENT COMMENTS

Dated: 12th December 2013

CENTRAL ASIA DEVELOPMENT GROUP, INC.

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Findings and Responses

(Continued)

For the Period March 12, 2009 through June 30, 2013

2013-1: Lack of Adequate Control Over Cash-For-Work (CFW) Laborers' Attendance and Payment Reconciliations

Management Response:

On 15 November 2013 CADG returned \$445,808 to USAID as direct payment for the theft of federal funds which occurred in the Zabul province between July 2012 and December 2012.

Since the amount has been returned to USAID and CADG did not claim it as a direct expense for CDP, there was no associated OH Cost of S\$115,910.00. CADG bore this loss as a company expense paid for with private funds.



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(Continued)

2013-2: Lack of Cost Analysis to Determine Whether Lowest Priced Airfare was Incurred

Management Response:

CADG takes exception to the auditor's assertion that commercial flights were not competitively bid as well as that the charges for airfare on CADG owned airplanes are not supported and does not deem this assertion as fair and reasonable.

CADG's commercial flights were competitively bid as a condition of CADG's competitively awarded cooperative agreement. The travel management companies, Corporate Travel and BCD, were awarded contracts in 2009 and 2011 respectively. Based on timely and quality services, the relationships with these companies were maintained. Under FAR 31.205-46, the use of travel agencies is an allowable travel cost and is standard industry practice. This standard industry practice applies to the CDP program as there were up to 140 Expats and Third Country Nationals (TCN's) who were required to travel. Additionally, up to 200 local Afghans were frequently required to fly from province to province, depending on the size of the project in their respective region. Obtaining multiple bids per flight under this scenario is and was not cost feasible. Therefore, we maintain that the usage of third party vendors whose contract was compliant with FAR 31.205-46 is not only standard industry practice, but provides a fair and reasonable justification for the purchased airfare.

It is important to note that CADG was responsible for internal flights within Afghanistan flown on local airlines (or the CADG plane), as well as for the R&R leave for Expats and TCN's, who were entitled to up to four return trips to their respective home countries each year. Given the degree of travel requirements, it was necessary for CADG to quickly negotiate and implement a travel arrangement with a third party provider who would be able to address the volume of travel requirements, whilst at the same time, provide access to the most reasonable, logical and practical fare, available at any given time.

In order to meet these requirements as well as those outlined in the agreement with USAID, CADG met with three separate travel management companies (TMC's) to determine which would meet all of our necessary specifications. In doing so CADG wished to ensure that we had more control on our travel spending and achieve cost savings, maintain policy compliance, retain ability to track travellers in case of emergencies and enhance security considerations.

The formal evaluation process behind the decision to appoint Corporate Travel and BCD, our TMC during the five phases of CDP, reviewed key requirements of the vendor:

- Technical capabilities, such as the usage of an international Global Distribution System (GDS), online profile management and reporting.

The TMC's CADG worked with used Amadeus as their GDS, which is a large, international GDS used by most travel agencies worldwide, and which gave them direct access to the lowest, and most reasonable fares in the air fare market. This type of system therefore enabled us to easily



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(Continued)

access the best fare available at the time of booking, and further outlined additional options, which gave flexibility if it was required.

- Experience and knowledge of their travel booking/counsellors.
- Global reach.
- Reasonable pricing and transaction fees.
- Service including after sales services (e.g. in any case of emergency).
- Flexibility (nominal fee charged for any changes).

In addition to the above requirements, it was important for CADG that the TMC had offices worldwide, experience at servicing similar accounts, travel counsellors with many years of experience and advanced training in airfare sourcing, usage of GDS and complex itineraries, which is a key factor in ensuring that the best rates are made available to clients. Their transaction fees were also reasonable, which was also a critical factor in the decision to formalize an arrangement with them.

CADG agreed to terms where ("the Contractor's") responsibility was to offer the "lowest logical fare" at the time of booking, which often included restricted non-refundable fares. At times the TMC was asked to provide slightly higher fares to allow the needed flexibility for ticket changes. Ticket flexibility is especially important when working in a country such as Afghanistan where security issues or a project issue requiring the immediate attention of the traveller would often interfere with a predetermined travel schedule.

CADG's contract with BCD gave the clear mandate that BCD Travel had to provide CADG with the lowest logical fare (LLF) as per the CADG Travel Policy. According to the contract, the Lowest Logical Fare (LLF) is defined:

- a. Uses a regularly scheduled commercial carrier;
- b. Prohibits preference for any airline, type of aircraft and connecting airports;
- c. May require one plane transfer both departing and returning;
- d. Departs from the airport nearest to the employee's location
- e. Allows for minimum 3 hours connecting time in Dubai.

NB The LLA is not applicable to travel to and from USA where in most cases we need to comply with Fly America Act <http://www.ogc.doc.gov/ogc/fl/fald/itl/itlv14.pdf> this is for travellers under direct US government funding.

In addition to our contracts with Corporate Travel and BCD, who were predominantly responsible for arranging all international travel during CDP, CADG also negotiated agreements with Dubai-Afghanistan



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(Continued)

charter carriers. These carriers operated scheduled flights on various Afghanistan routes with discounted fares and waiver of penalties in case of changes at short notice.

With reference to the issues raised by the auditors concerning our the CADG plane, we would like to reiterate that numerous international companies working in Afghanistan during the period of CDP, regularly used our plane, and did so not only because of the points outlined immediately below, but also because of the reasonable nature of the airfares, the routes flown, our adherence to security protocols as well as our scheduling. Reason stand that had our flight costs not been competitive, CADG would not have attracted the high volume of business as seen in 2011, when CDP only represented only 13% (yearly average) of overall passenger volume. Please note the following key points which were raised at the time of audit:

- Unlike the CADG plane, DFS only fly from the Military ramp in Kandahar. Therefore no local nationals are allowed on their aircrafts. CADG were the only company that would fly from the Kandahar civilian ramp to Camp Bastion, Lash, Farah (Afghanistan). The only other airlines that flew from the civil ramp were Ariana or Kamair, and these airlines would fly to Kabul and then you would connect to Herat or to other airfields. This would mean over-nighting in Kabul, in order to get from KAF and other airports.
- Most airfields were controlled by the military. So similarly to what is outlined in the above point, there are significant and onerous restrictions, and no local carriers were permitted to fly to airfields like TK. It would only be foreign companies similar to CADG.
- We also had projects in Zaranj, a province which no airline would fly to, with the exception of CADG. Pactec, another airline based in Afghanistan, stated in their price list that they did fly to Zaranj, however it is important to note that because of security issues and the inherent dangers within the province, Pactec have not in fact flown there for the past three years.
- Airfields like Salerno, Sharana, Gardez, and Qalat were only flown to by CADG and Embassy Air, however for the majority of the duration of CDP, Embassy Air, chose to cancel all flights to these areas due to security related issues. Please also note that no local Afghan airlines flew to these provinces at the time.

Safety of local carries (Afghanistan airlines):

The below extract was taken from the State Department website which states that US personnel should not travel on the local Afghan airlines and serves as an explanation as to why local airlines were not utilized even if they were lower cost. As a US Company, CADG adhered to the regulations on the State Department website.

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(Continued)

AVIATION SAFETY OVERSIGHT: As there is no direct commercial air service to the United States by carriers registered in Afghanistan, the U.S. Federal Aviation Administration (FAA) has not assessed the government of Afghanistan's Civil Aviation Authority for compliance with International Civil Aviation Organization (ICAO) aviation safety standards. Further information may be found on the FAA's safety assessment page.

U.S. government personnel are not permitted to travel on most Afghan airlines due to these ongoing safety concerns and the lack of Afghan government safety oversight capabilities. U.S. government personnel may travel into and out of Afghanistan on international flights operated by airlines from countries whose civil aviation authorities meet the safety standards for the oversight of their air carrier operations under the FAA's International Aviation Safety Assessment (IASA) program. Such countries with airlines that operate to Afghanistan have included India, Pakistan, Bahrain, Germany, Turkey, and the United Arab Emirates.



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Findings and Responses

(Continued)

2013-3: Lack of Complete Documentation to Support CFW Program

Management Response:

CADG concurs with the importance of ensuring that adequate documentation should have been obtained and maintained throughout the course of the Community Development Program. However, we would like to reiterate that the majority of the 78 (of 163 CFW Programs transactions tested during the audit) were transactions that took place between 2009 and 2010 while the CADG Finance Policies & Procedures which these exceptions were valuated against were implemented in April 2012. The transactions tested between 2009 and April 2012 should have been tested against the procedures in place at that time. Please note that while the procedure put in place in April 2012 enhanced CADG's internal controls, the prior procedures were in compliance with 22CFR226, as confirmed by USAID's preaward survey. As the majority of the referenced exceptions were transactions that took place during the earlier part of the program, we were unable to retrospectively rectify the lack of documentation which were required post April 2012.

CADG has since continued to educate our team members and improve our systems to ensure that proper justification and explanations would be in place and that adequate documentation would always be obtained.

With reference to the various observations outlined by the audit team, we would like to make the following comments:

CFW Employees

- Regarding the missing father's name - it is frequently difficult for CADG to obtain the father's name as the majority of the local Afghans are afraid to put their family name down and thus be associated with US Government projects for fear of the safety of their family and themselves. Although we acknowledge there has, at times, been lack of adequate documentation, CADG as a company and an implementer of this program, has taken its best effort to obtain all relevant info required for documentation for the said CFW laborers.
- Regarding the concerns raised about finger prints. It is difficult and subjective to judge matters relating to fingerprints, given the study of such is subjective and is and in of itself, a subject which generally requires the expertise of a subject matter expert. However, we assume that the above referenced illegible fingerprints are those that appeared incomplete. The fingerprint noted on "Acknowledgement of Receipt" appearing incomplete could well be due to the surface where the thumb was printed on to the document, or alternatively could be low quality of the ink that resulted in an improper thumbprint.



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In cases where the fingerprints appeared different, yet were for the same CFW employee, we acknowledge that there were situations in the country, when one person had to receive payments for several people. As most CFW employees were illiterate it was difficult to request any authorization letter from people coming from such remote areas. There were also numerous occasions in which the Elder (the most respected individual in the province), would receive payment on behalf of CFW employees, due to the low level of literacy among many of the employees, who could neither read nor write.

- Due to various security issues on the sites, the salary payments to CFW employees were conducted in a safe place, such as the District or Provincial Governor's house. This means that hundreds of people had to travel to one single destination to receive cash, and in numerous provinces within the country this was at times difficult to coordinate. This is the single most contributing factor to why, on a number of occasions, several individuals signed for cash payments on behalf of their village members. Given Afghanistan is a tribal country, and several related family members were often working on a single project, it also resulted in one member of the family being nominated to receive payments on behalf of his relatives.
- In situations where CFW employees were not paid for some reason (such as failing to be present for the collection of their cash payment), members of the CDP team would often hear from the employee as long as four to five months later, when they would just show up at the CADG office requesting immediate payment.

Vendors

- Vendor sourcing was always supervised and monitored by the local program manager and the expat program manager to ensure that procurement was carried out in a transparent, fair and value for the money basis. We understand that this should have been with additional attention to detail. We have made improvements to this process and have educated our team on providing more detailed explanations.
- CADG has an Internal Audit Team who randomly and periodically checks the "existence" of these vendors and ensures our procurements are done on a transparent and reasonable basis as much as possible.
- With reference to payments for vendors, the Ministry of Economy or Afghan Investment Support Agency requires two people to register a company: A President and Vice-President. Both of them, have the authority to sign documents, which explains why there are instances where payment vouchers appear with different signatures (or thumbprints) for the same vendor. Very often, Afghan vendors run their business with their family members, and some of these vendors travel outside of the country to conduct business which often results in a relative (father or brother) of a vendor to receive payment on their behalf for delivered materials or services.

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- CDP Vendors' were paid for materials or services provided only upon or after provision of their invoices to members of the CADG Finance and Operations Team. The vendors also signed the Payment Vouchers, which were accordingly treated as acknowledgment of receipt for cash received.
- In the majority of cases, vendors provided trucks to deliver goods and charged CDP by units of hours or days, and in these instances we did not request a detailed log of the trip. We were very conscious that truck drivers use different routes to deliver materials to the project sites in the interests of security as well as to avoid being traced so that their journeys were not predictable.
- The CDP team also used vendors from different parts of provinces, to give an opportunity to as many people as possible in that province to earn money. This is also a contributing reason as to why on occasions vendors who had heard about our program came from remote areas to provide delivery services. This accordingly would increase trip rates, as they had to bring materials from further afield.
- Trip rates also depended very much on the security situation from site to site, as there unfortunately were occasions where truck drivers were killed by the Taliban or IED's/mines. Of course, as a result of the fatalities and the significant risk of the journey, the other vendors increased their prices immediately and many of our regular vendors decided not to proceed with existing arrangements.
- When these instances were detected, CDP took immediate steps provide additional training to the staff involved and gave instructions to Managers to be additionally vigilant to ensure such mistakes did not happen again.

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2013-4: Missing or Insufficient Source Documentation to Support Expenses**Management Response:**

Taking into consideration the size of the Community Development Program, we accept that some error and oversight was sustained resulting in missing or insufficient source documentation to support all incurred expenses.

In addition to the sheer scale of the Program, we also acknowledge that there is inherent risk, given the number of staff and the differences in their level of their education and experience. Unfortunately human error is a factor in business across all sectors and cultures and we have continually tried to educate our staff and train them as these issues arose in the course of business.

Very often, financial documents had to be transported within the country and due to the sheer size of the country as well as to security issues, several people were involved in the course of the transportation. Unfortunately, this contributed to increased risk of documentation loss on a number of occasions.

According to the Section 300.5-A7 of the CADG Finance Policy, the Chief of Party should sign or approve every lease agreement for vehicles and accommodation utilized for the purpose of the CDP team members, across the numerous provinces. According to the Policy, the Chief of Party was required to approve individual agreements in the beginning of each of the five phases. However, as the program was extended several times, inclusive of no cost extensions, this frequently meant that the same property and transportation equipment had to be used for additional month(s). On some occasions the respective lease agreements were extended for one or two months, and had to be transacted and finalized quickly to ensure we retained the transport and/or accommodation. We acknowledge that there were occasions where the Chief of Party called upon the Provincial Managers to extend lease agreements, without the COP's signature. In spite of the lack of Chief of Party signature, the lease and payment do support the allowability of the expense.

Regarding Receiving Inspection Reports (RIR), CADG Finance Policy required this document only for construction materials (sand, gravel, stone and etc.) purchased for CFW projects. That is why there were no RIRs provided for any other items purchased for office activities (other direct costs). The CADG team identified that the Financial Policy had to be revised, and accordingly the requirement for purchases above a certain threshold or for a certain category (e.g. Computer equipment) to be supported by an RIR, was included into the Purchase Procedures.

The requirement for the Operations Team to fill in RIRs every time material was delivered; was however, not always feasible to satisfy. The CDP program had some projects in very remote areas which is why CADG local employees had to regularly visit the project sites to accept materials, and to track the progress of the work. To do so they had to pass illegal Taliban check points. One of their main safety concerns was carrying documents that associated them with an American company.

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As previously mentioned, the vendors who worked with the CDP program provided invoices materials delivered and services rendered to the CDP Team. At the same time, the vendor signed the payment vouchers to acknowledge the receipt of cash. Accordingly, these documents were treated as proof that the vendor was paid.

Whilst this policy was very clear and all relevant parties were aware of the procedures, there were occasions when urgent payment was required. These exceptions occurred predominantly in the more volatile provinces in the south and east of Afghanistan such as Helmand province, where at times it was difficult to predict or plan some purchases. The CDP team was conscious when such exceptions were made and endeavored to constantly improve its policies and procedures, to prevent such incident from reoccurring.



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2013-5: Lack Adherence to Timesheet Policy and the Terms of Employment Contract

Management Response:

CADG's Timekeeping Policy for Local Nationals was formalized in April 2012, clearly outlining a uniformed policy for the completion and control of Local National (LN) timesheets and attendance reports; ensuring regulatory compliance with USAID Policy. This policy applies to all contracted LN (Afghan) workers not part of the Cash for Work (CFW) program.

This policy was, in part, implemented because the majority of our LN's were not literate, spoke different languages (mainly Pashto and Dari) including local dialects, and therefore should not have been required to sign anything that they could not read and thus understand.

Whilst we acknowledge the comments of our auditors for the SIGAR Audit, we believe that the below summarized process provides in and of itself an adequate approval process, which encompasses (but is not limited to) the Finance Officer, the Deputy Provincial Manager, the Provincial Manager, and ultimately the HR department in Singapore.

Summary of process is as follows:

- Admin Officer maintains/monitors the daily attendance sheets.
- Admin Officer prepares the monthly attendance report.
- Attendance sheet is checked and signed by PM/DPM.
- Admin Officer submits the monthly attendance report to Kandahar office for checking, government tax charge and preparation of payroll.
- Kandahar office returns Payroll record to Provincial FO in Excel format.
- Finance Officer reconciles both the total number of employees and the man-days on the KOC payroll to the time sheets and attendance reports prepared. Any differences must be highlighted and sent back to Kandahar for correction. Once corrected, the final payroll should be sent from KOC to the provinces in PDF format.
- The FO and PM/DPM must sign the reconciliation between KOC Payroll and Attendance records, signifying their agreement with the payroll and its disbursement.
- The Admin Officer prepares a separate LN food allowance sheet based on attendance over the past month.
- Provincial Manager approves/signs the payroll for payments.
- Cashier distributes cash advance from FO to staff.
- Each staff member will thumbprint/sign that he received his salary on payroll sheet.

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Important Comments

Please note that with regard to the above mentioned “questioned costs”, upon returning to the US, Mayer Hoffman continued to request data from CADG, relating to contracts for expatriates and as well as for LN’s, which we furnished to them immediately. We had a great deal of communication with Mayer Hoffman, who highlighted that at one point the questionable costs for expatriates was in excess of \$450k, and the LN’s just under \$400k.

We were able to direct Mayer Hoffman to information we had previously uploaded to their server, which ultimately, in the case of the expatriates, reduced the questionable cost to under \$29k. This was verified to us from Melissa just prior to their final comments issued early October 2013.

We additionally furnished information to them relating to the LN’s, which should have had the same or similar effect to that information which was furnished for the expatriates, however this figure and the degree of reduction was never advised to us by the auditors. We were extremely surprised to learn of the figure in the report sent to us last weekend, and in turn, we are systematically going through items line by line to determine what information they may have not downloaded, or is missing.

Please find attached Appendices A,& B , which is the supporting documentation relating to the spreadsheets mentioned above, previously furnished to the auditing team.

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2013-6: Lack of Adherence to Procurement Procedures**Management Response:**

With reference to the above finding, CADG acknowledges that some documents may not be available. However, CADG is of the opinion that, in relation to items procured during the course of CDP, all relevant information was obtained to the “practical” “maximum extent”. We note the word “practical”, as required by the regulation, was added post transaction testing and that the initial draft of the audit finding utilized the word “possible.”

It is important to note that we do have key documentation to support the fact that items were paid for, and were received, and can access evidence to demonstrate this.

With relation to the observation that documents were missing, we have advised that various mitigating controls were developed through the course of CDP to ensure that transactions were carried out in the best interests of the program and that supervisory controls like the approvals from the PM, DPM and etc. were in place before payment was made.

We had also our internal audit team whose main role was to ensure that adequate controls were in place and they played a key role to identify any lapses, and make the necessary rectifications including preventive ones, in a timely manner.

To improve the system, the organization ensured that policies and procedures were revisited, enhanced and modified in the past 4 years of the project life.

In the course of CDP Program, CADG realized the necessity to train the personnel to enhance the staff’s awareness of the USAID Regulations, internal policies and procedures, and accordingly conducted several training forums for the Afghanistan team, as well as for Singapore team members, on and offsite. These training sessions took place in 2009, 2010, 2011 and 2012, and we have provided documentary evidence to the auditors to demonstrate such.



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2013-7: Lack of Support for Transferred, Donated and Damaged Assets

Management Response:

In accordance with the Cooperative Agreement, all fixed assets of the CDP Program were either donated to the Governmental agencies of Afghanistan or transferred to other USAID implementers. The CDP team was aware of the USAID requirement to communicate disposition of the property with the Agreement Officer's Technical Representative (AOTR), who must support the property disposition plan. The team also knew that before disposition of an asset with a market value above USD 5,000 (e.g. generators), CADG had to seek approval from the Agreement Officer.

During the closure of the Provincial Offices and the overall Program, our Senior Management in the country was in constant communication with USAID – Afghanistan, to make sure that disposition of any property was done properly and according to all relevant procedures. All assets with market value more than USD 5,000 were donated with prior AO's approval. Approval will be sent in separate emails due to the size of the files.

The damaged assets such as the three generators mentioned in the report, were used for several years and became damaged and ultimately broken due to the harsh environment of the country. However, the CDP team did not dispose them. The generators were kept in the offices because there was the potential that they could be fixed. As the CDP program had generators from other closed provinces, the management decided not to spend additional funds fixing the generators, but instead replaced them with generators in working condition.

During the closure of the program, the Afghan Government in the respective provinces was ready to accept the generators despite their broken condition. They had intention to repair them, and use them in the future. USAID - Afghanistan also advised CADG to transfer some broken generators to another USAID Implementer who also planned to repair these generators for future programs. With the AO's approval, the broken generators were also donated or transferred. AO's approval letters are in the CADG office, and will be sent separately.

CADG tracked its fixed assets in the Centralized Database. The IT System Administrator travelled around the provinces to check and tag the assets as well as to update and maintain the database. There were some delays in updates due to the risky security situation resulting in flight restrictions between the provinces.

As CADG was closing provinces, the generators were moved to Kandahar or Kabul. Later they were donated or transferred. We will provide supportive documents proving that the assets listed above were not missing but donated to the Governmental agencies of Afghanistan or transferred to other USAID Implementers.

Please find attached Appendices C, D & E, which is the supporting documentation relating to the Damaged and Donated Assets outlined in the comments above.



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2013-8: Advances Not Maintained in an Interest Bearing Account

Management Response:

CADG was aware of the Code of Federal Regulations (CFR) - 22 CFR 226.22 requirements related to maintaining advances of Federal Funds in an interest bearing account. In fact, it does maintain an interest bearing account in Wachavio Bank (Wells Fargo) which was used to hold the program income for another USAID cooperative agreement awarded to CADG between 2002 to 2006.

CADG established a specific policy for this cooperative agreement that all advances of Federal Funds were immediate so that it met the cash requirements of the program in a timely manner. It was not commercially feasible and viable for CADG to maintain the drawdown amounts in an interest bearing bank account. As such, CADG was exempted from the requirement under 22 CFR 226.22 - where the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources.

CADG's policy was to ensure that USAID Drawdowns was limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of CADG in carrying out the purpose of CDP. The timing and amount of drawdowns was as close as was administratively feasible to the actual disbursements by CADG for the direct project costs and the proportionate share of any allowable indirect costs.

Once funds were available in the DHHS PMS, the authorised person from CADG, requested funds (drawdown) electronically from DHHS through the internet. Each fund request was closely estimated so as not to exceed the CADG's immediate disbursement needs.

Upon receipt of the funds, CADG immediately transferred the funds to the various bank accounts (Standard Chartered Bank, Afghanistan International Bank (AIB), Kabul Bank) in Afghanistan and Singapore (HSBC) to meet the project requirements, including the predetermined allowable indirect costs.

CADG was fully responsible to ensure that even though the immediate transfer of the drawdown funds to the respective project locations needed to occur within the stipulated timeline, the security risks and operational challenges including bank holidays, bank strikes, internal issues with banks not having sufficient cashflow had to be considered. CADG's senior management, including the country managers, was consulted before any tranches of funds were sent out. This was to safeguard federal funds against any loss and/or misappropriation of monies.

Such unforeseen delays resulted in minimum monthly advance cash on hand which was then multiplied by the monthly Federal Reserve Rate and resulted in an estimated loss of interest income of US\$9,613. This amount needs to be further adjusted as the monthly bank service fees for not keeping the minimum amount in the interest bearing account would have been on average about US\$50 per month multiplied by 52 Months (March 2009 to June 2013) totalling US\$2,600.00 in bank service fees. Moreover, an excess activity fee may apply for each transaction that exceeds the limit of certain types of withdrawal and transfer transactions made out of the interest bearing account, usually maximum combined total of six (6) per month or monthly statement period.

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For this cooperative agreement to run well, CADG required a versatile and low-cost current account suitable for businesses with high transaction volume and advanced Treasury Management needs whereby wire transfers can occur hassle-free with minimum bank charges incurred without the need to worry about keeping the minimum daily balances and average collected balances.



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2013-9: Unallowable Costs Were Charged to the Agreement

Management Response:

We do not agree with the audit findings that CADG had charged unallowable costs to the agreement. We wish to highlight that for costs to be allowable, a cost shall be necessary and reasonable for the proper and efficient administration of the program. Our explanations as why the “unallowable costs” as determined by the audit should be allowable are as follows:

- a) The penalty for the reissued visa amounting to S\$461 was in respect of the initial visa that was issued but had to be cancelled due to unforeseen changes in the travel arrangements of the traveller. Travel changes were at times unpredictable especially when the project personnel were required to be on the site on immediate purposes. Such rigorous circumstances are truly reflective of the dynamics of the project and therefore cannot be regarded as a violation of, or failure of, the contractor to comply with laws and regulations. Hence such costs are reasonable and allowable costs as they have been incurred in the course of running the project effectively and efficiently.
- b) The “Gifts” of US\$45 are made up of the following two expenses:-
 - Purchase of chocolates for US\$30 for the project personnel for the Eid al-Fitr (Feast of Breaking the Fast) which marks the end of the month of Ramadan
 - Purchase of flowers and turban (religious, culture and a mark/symbol of respect) for US\$15 for a local ceremony and celebrations.

Classifying the above expenditure as “gifts” will not be correct.

To work closely with people and to gain their trust within the communities, CADG practices culture sensitivity and in doing so incurred a small amount of reasonable and acceptable expenses. Such expenses are core to CADG and USAID’s mission to accomplish results sustainably and cost-efficiency and bringing more Afghans back into economic and civic life, leading to the successful implementation of the project.

Hence, these expenses shall not be considered as “gifts” and therefore will not fall in the category of 48 CFR 31.205-13 – Employee morale, health, welfare, food service, and dormitory costs and credits, states, in part: “...(b) Costs of gifts are unallowable...”

- c) The “Ceremony” expense of US\$890 was questioned because of the error in classifying the expenditure as “Ceremony”. The amount was incurred as a meeting expense for approximately 200 people consisting of various stakeholders such as representatives from the communities/villages, local government agencies personnel and CADG Personnel. Such meetings are imperative for the stakeholders to discuss and share with the beneficiaries the objectives and deliverables of the CFW works as part of fruitful and effective implementation.

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One of the main objectives of such meetings was to encourage and work closely with the Afghan people to lay the foundation that enabled a successful transition from a donor-supported economy to one driven by Afghan growth and ingenuity. Such investments in human capital make the country less vulnerable to insurgents and illicit business and more attractive to private-sector enterprise. Hence, the above expense is considered as reasonable and allowable for the proper and efficient administration of the program.

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2013-10: Lack of Adherence to Policies and Procedures**Management Response:**

As per our assertion outlined in Item 2013-6, CADG identified in the early stages of CDP, the importance to conduct regularly training to all personnel involved in the program, inclusive of staff in Singapore, and Afghanistan. It was clearly essential to train the personnel to enhance their awareness of the USAID Regulations, internal policies and procedures, and accordingly conducted several training forums for the Afghanistan team, as well as for Singapore team members, on and offsite. These training sessions took place in 2009, 2010, 2011 and 2012, and we have provided documentary evidence to the auditors to demonstrate such.

In addition to formalized training sessions as outlined above, informal training would take place on a regular basis with team members over the phone or skype, or in person when team members from Singapore went into Afghanistan, or when staff based in Afghanistan, would travel o Singapore.

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2013-11: Lack Adherence to Employment Policy for Local Afghans**Management Responses:**

While CADG had an official Local National Recruitment and Termination policy in place through most of the CDP program (and a basic one in our Policy for LN contractors before that), due to nature and location of the work, strict adherence to the policy was not always practical. The majority of the individuals placed on contracts were for low level positions such as cooks, security guards, cleaners, local supervisors, etc. These were positions for which candidates were “a dime, a dozen.” The individuals hired were normally recommended and / or related to existing staff (senior leadership positions such as Cash for Work Supervisors and DPMs).

Due to the tribal culture and the high illiteracy rate prevalent in Afghanistan, the PMs and DPMs had to rely on recommendations and word of mouth in order to advertise and fill required positions. Because of this, background checks were not always easily done. While it was not impossible to complete background checks, it was difficult and could have jeopardized our relationships with the Local Nationals. Due to the tribal culture and the status held by certain individuals in a given village, attempt to conduct a background check could have been seen as questioning their integrity which could have hindered our success in the area.

While there were some steps that were not always followed in the recruitment phase of the hiring process for LNs, our in-country LN administration staff ensured the proper documentation and approval was given before any contract was issued. Our Local Nation Administration Manager ensured that all contractors hired provided a certificate of employment from their previous employer, a copy of the Tazkira (Government issued card with verified relevant personal data), and that CADG HR gave their approval for the position and salary offered. As for the termination of the LN contractors, the LN staff ensured that terminations were also done in accordance with Afghan Labour Laws and that appropriate payments were made in lieu of notice periods.

All PM's and DPM's were briefed and constantly reminded of the procedures involved with the hiring of LNs. Unfortunately, due to the size of the program during Phase III (November 2010 – September 2011), it was almost impossible to ensure sufficient compliance with the hiring of LN contractors. During this time there were more than 2000 Local National contracted; with several being hired and terminated each month. It was not until the later stages of Phase IV (April 2012 – December 2012) that the number of Local Nationals being hired and terminated obtained a level that could better be managed by Singapore and Senior Program Management staff who were then better able to enforce the Recruitment and Termination Policy.

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Employee Performance Evaluations

With specific reference to formal performance evaluations being conducted for Local Nationals, CADG acknowledges that such a formal process was not strictly enforced from an overall project perspective. However the immediate Manager, Deputy Provincial Manager and at times the Provincial Manager, would provide feedback to the employee regarding their performance and areas where they are excelling, and in areas where improvement was required.

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Auditors' Rebuttal to CADG's Responses to Findings

For the Period March 12, 2009 through June 30, 2013

2013-1: Lack of Adequate Control Over Cash-for Work (CFW) Laborer's Attendance and Payment Reconciliations

CADG partially disagrees with the finding, stating that since the amount questioned due to theft was returned to USAID on November 15, 2013 and the expense was not claimed as a direct expense, no overhead expenses were incurred and the associated overhead costs should not be questioned. These expenses are classified as "Program costs – Cash-for-Work" on the Fund Accountability Statement which is a direct expense. The fact that the questioned amount was returned to USAID after our audit period does not prevent the questioning of the associated overhead costs since CADG draws funds on an advance basis. As such, the overhead expenses associated with these costs should be repaid in addition to the direct expenses. The direct expenses returned to USAID on November 15, 2013 remain questioned so that USAID can confirm the amount related to the theft in Zabul was in fact received. Our finding and recommendation remains unchanged.

2013-2: Lack of Cost Analysis to Determine Whether Lowest Priced Airfare was Incurred

CADG disagrees with the finding and recommendation due to various reasons. CADG indicated it used travel management companies to conduct the purchase of airfares throughout the project. These travel management companies were awarded contracts and are allowable under Federal Acquisition Regulation (FAR) 31.205-46. The use of travel agencies when purchasing airfare is allowable per the FAR. The contracts of these travel management companies were not provided to us during the audit. As such, we were unable to determine whether the contract included language that required the company to utilize the lowest priced airfare. The documentation attached to the support for the expense did not include any justification that these prices met the criteria stated within the finding.

CADG negotiated agreements with Dubai-Afghanistan charter carriers with discounted fares and waiver of penalties for changes or cancellations. We requested supporting documentation for the chartered airfares incurred during the audit, but were not provided with an agreement. As such, we were unable to determine whether the fares paid represented the lowest fare available.

Utilization of a CADG-leased plane occurred during the audit period. CADG would fly to most locations where other charter flights would not fly, due to the lack of military ramps or security issues. In addition, CADG stated that it would not have attracted such a high volume of business if the prices of its CADG-leased plane had been excessive. We requested supporting documentation for the calculation of the fares for the CADG-leased plane, but no documentation was provided. There were other organizations utilizing the CADG-leased plane during the audit period. However, the volume of business did not support a statement that the fares were reasonably priced.

Lastly, CADG states that safety was a main concern when selecting airlines to fly employees and local Afghans. It adhered to the State Department website that states U.S. government personnel are not permitted to travel on most Afghan airlines due to ongoing safety concerns and the lack of Afghan

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government safety oversight capabilities. This statement is made on the State Department's website and is applicable to U.S. government personnel. The State Department's website does provide the option of flying on other air carriers that fly into and out of Afghanistan that do not meet FAA standards. Our finding and recommendation remains unchanged.

2013-5: Lack Adherence to Timesheet Policy and the Terms of Employment Contract

CADG partially disagrees with the finding and recommendation and provided a summary of the timekeeping process for the local nationals. This process was formalized in April 2012. During our audit, we followed the formalized policies during the period the expense was incurred. Based on these policies, the testing provided multiple exceptions as noted.

CADG states that additional information was provided to us that should have reduced questioned costs associated with the local nationals. We did receive additional documentation and have reanalyzed the documentation provided. We noted that there was some additional information provided that we should take into consideration for the questioned transactions. We reevaluated this additional documentation and determined that the questioned costs, including associated indirect costs, should be reduced by \$59,742. As such, we have revised the questioned costs related to Finding 2013-5.

2013-6: Lack of Adherence to Procurement Procedures

CADG partially disagrees with the finding and recommendation by stating that the key documentation to support that the items were paid, received and benefitted the program were presented to the auditor. The policies and procedures were enhanced and modified throughout the life of the project. This was evident by the five different finance policies and procedures obtained during the audit, with each being more specific than the previous policy. However, the audit followed the formalized policies that were in place during the period the expense was incurred. Without all of the relevant information prescribed in the policies and regulations, there was an insufficient audit trail to determine whether the goods and/or services procured were reasonable, allowable and allocable. Our finding and recommendation remains unchanged.

2013-7: Lack of Support for Transferred, Donated and Damaged Assets

CADG disagrees with the finding and recommendation by stating that all assets over the \$5,000 threshold that were transferred or donated did have the Agreement Officer's approval prior to the transfer or donation. During the audit fieldwork, we requested approval of the Agreement Officer to document that these transfers and donations were approved prior to the move. However, no documentation was provided prior to the end of our review. CADG provided additional documentation related to this finding with its management response. This additional support was not reviewed as it

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Auditors' Rebuttal to CADG's Responses to Findings

(Continued)

was provided after the documentation cutoff date. We also requested the communication of damaged assets to USAID. No such communication was provided for our review during fieldwork. Our finding and recommendation remains unchanged.

2013-8: Advances Not Maintained in an Interest Bearing Account

CADG disagrees with the finding and recommendation stating that it was not feasible to maintain funds in an interest bearing account due to the need to access the funds in a timely manner. However, there are many types of interest bearing accounts that maintain its liquidity that CADG could have utilized. Also, prior approval from USAID should have been obtained if CADG believed that depositing the funds into an interest bearing account was not practical.

CADG also states they are exempt from 22 CFR 226.22 because the depository would require an average or minimum balance so high that it would not be feasible within the expected Federal and non-Federal cash resources. 22 CFR 226.22 does provide for three different exemptions from this requirement, but CADG was unable to provide any documentation during audit fieldwork to substantiate that it was exempt from this requirement. Our finding and recommendation remains unchanged.

2013-9: Unallowable Costs Were Charged to the Agreement

CADG disagrees with the finding and recommendation for various reasons. It states that the \$461 penalty for a reissued visa was incurred because of a cancellation of travel due to unforeseen changes in arrangements of the traveler. Travel plans were often unpredictable with regard to project personnel. Penalties are not allowable under 48 CFR 31.205-15 unless they were approved by the Agreement officer. However, USAID approval was not provided for our review.

CADG does not consider the \$45 as gifts. The chocolate, flowers and turbans purchased were for local ceremonies and the end of Ramadan. CADG states that they must practice culture sensitivity and earn the trust within the communities in order to be effective in its program. The 48 CFR 31.205-13 specifically states that costs of gifts are unallowable. We consider these to be gifts to the community, as well as local staff.

CADG stated that the \$890 ceremony expense was incorrectly described as a ceremony. Rather the expense was incurred for a stakeholder meeting to discuss the project and distribute deliverables of the CFW program. However, the documentation supporting the expense does not detail an agenda of items to be discussed during this meeting. It is not evident that the meeting's purpose was to discuss the project and distribute deliverables.

Our finding and recommendation remains unchanged.

CENTRAL ASIA DEVELOPMENT GROUP, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-09-00511-00

Auditors' Rebuttal to CADG's Responses to Findings

(Continued)

2013-10: Lack of Adherence to Policies and Procedures

CADG partially disagrees with the finding and recommendation by stating that there was sufficient training of staff, both in Singapore and Afghanistan, regarding the policies and procedures of CADG. The formal training sessions were performed each year, as well as informal training provided on a regular basis. Even with the training provided, CADG's policies and procedures were not properly followed as noted in the finding. Therefore, more in depth training should be conducted to ensure all personnel are aware of and follow the policies and procedures. Our finding and recommendation remains unchanged.

2013-11: Lack Adherence to Employment Policy for Local Afghans

CADG partially disagrees with the finding and recommendation by stating that due to the nature and location of the work, strict adherence to the local national recruitment and termination policy were not practical. A majority of the local Afghans were illiterate and CADG relied on recommendations from other employees and word of mouth to fill positions needed. In addition, the in-country local nationals ensured that proper documentation and approval was given prior to any contract being issued. There was no documentation provided to support that CADG had followed its hiring and termination policy. Our finding and recommendation remains unchanged.

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