

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-74 Financial Audit

USAID's Afghanistan Small- and Medium-Sized
Enterprise Development Program and
Afghanistan Stabilization Initiative Program:
Audit of Costs Incurred by Development
Alternatives, Inc.



JULY
2014

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

The U.S. Agency for International Development (USAID) entered into contracts with Development Alternatives, Inc. (DAI) to support two USAID programs—the Afghanistan Small- and Medium-Sized Enterprise Development (ASMED) program and the Afghanistan Stabilization Initiative (ASI).

ASMED was designed to eliminate non-governmental barriers to establishing and running a business in Afghanistan by funding such activities as supporting the development of local business infrastructure. ASI was designed to build trust between communities and the Afghan government through small community improvement projects.

SIGAR's financial audit, performed by Kearney & Company, P.C. (Kearney), covered the period October 26, 2006, through November 30, 2012 and expenditures of \$113,387,067 for ASMED, and November 1, 2011, through September 25, 2012 and \$31,269,391 for ASI. Kearney (1) identified and reported on significant deficiencies or material weaknesses in DAI's internal controls related to the task order; (2) identified and reported on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determined and reported on whether DAI has taken corrective action on prior findings and recommendations; and (4) rendered an opinion on the fair presentation of DAI's Special Purpose Financial Statement. See Kearney's report for the precise audit objectives.

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

July 2014

USAID's Afghanistan Small- and Medium-Sized Enterprise Development Program and Afghanistan Stabilization Initiative Program: Audit of Costs Incurred by Development Alternatives, Inc.

SIGAR 14-74-FA

WHAT THE AUDIT FOUND

Kearney & Company, P.C. (Kearney) identified two material weaknesses with Development Alternatives, Inc.'s (DAI) internal control over financial reporting and five instances of DAI's noncompliance with the terms of the award and applicable laws and regulations. The material weaknesses and instances of noncompliance resulted in Kearney questioning \$455,883 in unsupported costs—costs not supported by sufficient documentation to allow Kearney to determine their accuracy and allowability. Kearney did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Questioned Costs Total	Ineligible	Unsupported
Other Direct Costs (ASMED)	\$25,335	\$0	\$25,335
Grants and Fee (ASMED)	\$419,049	\$0	\$419,049
Salaries & Wages (ASMED)	\$2	\$0	\$2
Allowances (ASI)	\$3,678	\$0	\$3,678
Other Direct Costs (ASI)	\$7,819	\$0	\$7,819
Totals	\$455,883	\$0	\$455,883

Regarding material weaknesses, Kearney found inadequacies in DAI's review and approval procedures for expenditures and deficiencies in its recordkeeping. Regarding DAI's noncompliance with the terms of the award and applicable laws and regulations, Kearney found unexplained discrepancies between DAI's general ledger, monitoring reports, grant closeout, and other supporting documentation provided to the U.S. Agency for International Development (USAID). As a result, the general ledger or the other documents could be incomplete because reconciliations were not properly performed or documented.

Kearney identified five prior audit findings relevant to the contracts and found that DAI had not taken adequate corrective action to address one of them. Specifically, in a June 2012 report on the Afghanistan Stabilization Initiative (ASI), SIGAR found discrepancies in DAI's timekeeping and billing records. Kearney's audit determined that some of these discrepancies persisted.

Kearney issued an unqualified opinion on DAI's Special Purpose Financial Statements for the ASMED and ASI, finding that they presented fairly in all material respects, revenues received, costs incurred, and the balance for the indicated periods in accordance with requirements established by SIGAR.

WHAT SIGAR RECOMMENDS

SIGAR recommends that the Mission Director of USAID/Afghanistan and the Acting Director of the Office of Transition Initiatives work in conjunction to:

1. **Determine the allowability of and recover, as appropriate, \$455,883 in unsupported costs identified in the report.**
2. **Advise DAI to address the report's two internal control findings.**
3. **Advise DAI to address the report's five noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 7, 2014

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

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

Stephen Lennon
Acting Director
Office of Transition Initiatives
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Development Alternatives, Inc. (DAI) under two U.S. Agency for International Development (USAID) contracts. One of the contracts provided support to the Afghanistan Small- and Medium-sized Enterprise Development (ASMED) program,¹ and the other supported the Afghanistan Stabilization Initiative (ASI).² The audit, which was performed by Kearney & Company, P.C. (Kearney), covered the periods October 26, 2006, through November 30, 2012, and \$113,387,067 in costs for ASMED; and November 1, 2011, through September 25, 2012, and \$31,269,391 in costs for ASI.

Based on the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan and the Acting Director of the Office of Transition Initiatives work in conjunction to:

1. **Determine the allowability of and recover, as appropriate, \$455,883 in unsupported costs identified in the report.**
2. **Advise DAI to address the report's two internal control findings.**
3. **Advise DAI to address the report's five noncompliance findings.**

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-023)

¹ USAID contract number 306-C-00-07-00503-00

² USAID contract number 306-DOT-I-02-08-00035-00

OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Development Alternatives, Inc.

*Financial Audits of Costs Incurred under Contract Numbers 306-C-00-07-00503-00 (for the period October 26, 2006 through November 30, 2012) and
306-DOT-I-02-08-00035-00 (for the period November 1, 2011 through September 25, 2012)*

March 21, 2014



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Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14

TRANSMITTAL LETTER

May 15, 2014

Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

To Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this document) is pleased to submit this Audit Report, as required under Contract Number GS-23F-0092J, Task HHSP233201300469G for Development Alternatives, Inc. (DAI). This Audit Report is in regard to DAI Contract Number 306-C-00-07-00503-00 for Afghanistan Small and Medium-Sized Enterprise Development Activity (ASMED) for October 26, 2006 to November 30, 2012, and DAI Contract 306-DOT-I-02-08-00035-00 for Afghanistan Stabilization Initiative (ASI) for November 1, 2011 to September 25, 2012.

Thank you for providing us with the opportunity to assist the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and conduct the financial audit of the two contracts noted above. If any additional information is needed, please do not hesitate to contact me at (703) 931-5600.

Sincerely,



David Zavada, CPA, Partner
Kearney & Company, P.C.

TABLE OF CONTENTS

	<u>Page #</u>
EXECUTIVE SUMMARY	1
Background.....	1
Objectives, Scope, and Methodology	2
Summary of Results	4
Summary of DAI's Response to Findings	6
SPECIAL PURPOSE FINANCIAL STATEMENTS	7
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS.....	9
AUDITOR'S NOTES TO THE QUESTIONED COSTS	11
INDEPENDENT AUDITOR'S REPORT	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	15
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE	17
SCHEDULE OF FINDINGS AND RESPONSES	19
APPENDIX A – PRIOR AUDIT FINDINGS AND STATUS	37
APPENDIX B – DEVELOPMENT ALTERNATIVES, INC.'S RESPONSE TO AUDIT REPORT	40
APPENDIX C – AUDITOR'S EVALUATION OF DEVELOPMENT ALTERNATIVES, INC. RESPONSE TO AUDIT REPORT	63

EXECUTIVE SUMMARY

Background

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) to perform an audit of the Special Purpose Financial Statements (SPFS) of two contracts awarded to Development Alternatives, Inc. (DAI) by the United States Agency for International Development (USAID).

Afghanistan Small and Medium-Sized Enterprise Development (ASMED) – Contract No. 306-C-00-07-00503-00

USAID initiated a contract to increase the contribution of the private sector to economic growth in a minimum of four Afghanistan provinces, including: Badakhshan, Nangarhar, Helmand, and Herat. The objectives of ASMED included the following:

- Expansion of markets
- Development of workforce through training
- Job creation in small- to medium-sized enterprises
- Promotion of investments by local and foreign interests
- International competition
- Improvement of the competitiveness of local products with imports.

The primary goal of the contract was to eliminate non-governmental barriers to establishing and running a business in Afghanistan.

The ASMED contract was awarded to DAI for the period of October 26, 2006 through October 31, 2011. The contract was a cost plus, fixed fee contract valued at an initial amount of \$55,003,159, covering the base period and all option periods. Subsequent modifications increased the funding to \$113,993,245 and extended the period of performance to November 30, 2012. The audit period covered in this report is October 26, 2006 through November 30, 2012.

Afghanistan Stabilization Initiative (ASI) – Contract No. 306-DOT-I-02-08-00035-00

The USAID, Office of Transition Initiative (OTI) initiated a three-year program in Afghanistan in June 2009 entitled “Afghanistan Stabilization Initiative” (ASI). The ASI program was designed to build confidence and trust between the Government of the Islamic Republic of Afghanistan (GIROA) and communities through the identification and implementation of small community improvement projects in unstable areas of Afghanistan.

ASI was designed to support GIROA in post-conflict areas through small, community-driven activities in order to increase the willingness and capacity of communities to cooperate and interact with GIROA, and expand GIROA’s capacity to exercise timely, credible, and responsive civil functions.

The ASI Task Order was awarded under the Support Which Implements Fast Transition III (SWIFT III) indefinite delivery, indefinite quantity (IDIQ) contract to DAI for the period of June 26, 2009 through June 25, 2012. DAI was contracted to establish a mechanism capable of mobilizing relevant GIRoA representatives and communities in consultative decision-making processes. These efforts are to support counterinsurgency operations by improving economic and social conditions, while simultaneously enhancing the legitimacy of the GIRoA. The contract was a cost-plus, fixed fee contract valued at an initial amount of approximately \$151,301,272. Subsequent modifications revised the Statement of Work (SOW) to decrease the contract value to \$82,589,520, and extended the period of performance to September 25, 2012. The audit period covered in this report is November 1, 2011 through September 25, 2012.

Objectives, Scope, and Methodology

Objectives

In accordance with the contract awards, the specific audit objectives of this financial statement audit are to:

- Express an opinion on whether the SPFS for the awards presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited, in conformity with the terms of the awards and Generally Accepted Accounting Principles (GAAP) or other comprehensive basis of accounting
- Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the awards, assess control risk, and identify and report on significant deficiencies, including material internal control weaknesses
- Perform tests to determine whether the audited entity complied, in all material respects, with the awards' requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the awards and applicable laws and regulations, including potential fraud or abuse that may have occurred
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS.

Scope

Our audits of the SPFS covered the following USAID contracts awarded to DAI:

- No. 306-C-00-07-00503-00: ASMED, for the period of October 26, 2006 through November 30, 2012
- No. 306-DOT-I-02-08-00035-00: ASI, for the period of November 1, 2011 through September 25, 2012.

Our audit procedures of indirect costs were limited to determining whether the indirect rates per the Negotiated Indirect Cost Rate Agreement were properly applied to the direct costs and

subsequently reported on the SPFS, correctly calculated, and appropriately charged to the U.S. Government in accordance with the agreement. The scope of our audit does not include procedures to verify the material accuracy of DAI's indirect cost rates and fixed fee rates. These rates are subject to USAID oversight through an incurred cost audit. Therefore, such information has not been subject to the auditing procedures beyond those designed to test the application of those unaudited rates in the preparation of the SPFS; accordingly, we do not express an opinion or provide any assurance on the rates.

Our audit was conducted for the purpose of forming an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 1. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents, Executive Summary, and Management's Responses to Our Findings are presented for the purpose of additional analysis and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it
- The scope of our audit does not include procedures to verify the efficacy of the ASMED and ASI programs, and accordingly, we do not express an opinion or provide any assurance on it.

Methodology

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), as published in the Government Accountability Office's (GAO) *Government Auditing Standards* (GAS or "Yellow Book"). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the SPFS of the costs incurred under the awards are free of material misstatement. An audit includes:

- Obtaining an understanding of DAI's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the SPFS.

Our audit approach enables us to redefine the audit scope as necessary, and consists of the following four phases:

Planning: Kearney developed an understanding of DAI and the SPFS by performing the following:

- Analyzing and comparing booked to billed costs
- Reviewing for changes in estimation and allocation methodologies and/or processes
- Reviewing the financial statements and footnotes
- Holding preliminary discussions with DAI personnel concerning their methods and processes

- Identifying significant costs
- Reviewing indirect rate applications
- Identifying significant sub-contracts.

Kearney also obtained the status and adequacy of the corrective actions taken based on prior audits for follow-up in subsequent phases.

Internal Control Understanding/Evaluation: Kearney performed procedures to obtain a sufficient understanding of the controls and compliance requirements in place over each of the cost categories to be tested. The results of this phase were considered in determining the nature and extent of procedures to be performed in the Testing Phase.

Testing Phase: This phase consisted of validating transaction populations and applying various sampling techniques, obtaining sufficient appropriate audit evidence that provides reasonable assurance as to whether the SPFS and related assertions are free of material misstatement, and determining whether all costs claimed are allowable, allocable, and reasonable. This phase also consisted of testing costs incurred for compliance with the contract and applicable laws and regulations.

Reporting Phase: In this phase, Kearney provided DAI's management with an appropriate Management's Representation Letter and performed wrap-up procedures designed to assess and confirm the completion of the audit in accordance with all relevant standards.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

Summary of Results

Opinion

Kearney issued an unqualified opinion on the SPFS, which concludes that the SPFS for each contract presents fairly, in all material respects, the program revenues, costs incurred and fees applied, and resulting revenue over/(under) expenses for the indicated periods in accordance with the terms of the agreements, and in conformity with the basis of accounting described in Note 2 of the SPFS. See the Independent Auditor's Report section of this document for our opinion.

Questioned Costs

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations. Unsupported costs are those costs for which DAI was unable to provide sufficient supporting documentation, including evidence of proper approvals, for Kearney to determine the accuracy and allowability of the costs. Kearney noted a total of \$455,883 in unsupported costs, as shown in Table 1 below. No ineligible costs were identified.

Table 1 – Total Questioned Costs

Contract	Cost Category	Unsupported Amount (\$)	Schedule of Findings and Responses Reference
ASMED	Salaries and Wages	2	DAI ASMED NFR 2014-1.3
	Other Direct Costs (ODC)	25,335	DAI ASMED NFR 2014-1.1 DAI ASMED NFR 2014-2.4 DAI ASMED NFR 2014-2.2
	Grants and Fees	419,049	DAI ASMED NFR 2014-1.2 DAI ASMED NFR 2014-2.1
Total Unsupported Costs – ASMED		444,386	
ASI	Allowances	3,678	DAI ASI NFR 2014-2
	ODCs	7,819	DAI ASI NFR 2014-1.2 DAI ASI NFR 2014-2
Total Unsupported Costs – ASI		11,497	
Total Unsupported Costs – DAI		455,883	

Internal Control Findings

There are two categories of internal control findings—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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 summary of each category of internal control findings follows.

Kearney reported the following material weaknesses:

1. Inadequate Review and Approval Procedures (DAI ASMED Notification of Finding and Recommendation [NFR] 2014-1.1, DAI ASI NFR 2014-1.1, DAI ASMED NFR 2014-1.2, DAI ASI NFR 2014-1.2, DAI ASMED NFR 2014-1.3, DAI ASMED NFR 2014-1.4)
2. Inadequate Recordkeeping (DAI ASMED NFR 2014-2.1, DAI ASMED NFR 2014-2.2, DAI ASMED NFR 2014-2.4, DAI ASI NFR 2014-2).

Compliance Findings

As part of our audit of DAI’s SPFS, we performed tests to determine compliance with provisions of the contract and other laws and regulations that have a direct and material effect on the SPFS. We identified the following instances of noncompliance:

1. Alliance Final Reports were Not Provided (DAI ASMED NFR 2014-2.3)
2. Unexplained Discrepancies between the Final Monitoring Reports (FMR) and General Ledger (GL) Balances (DAI ASI NFR 2014-1.1)
3. Untimely Payments (DAI ASMED NFR 2014-1.5 and DAI ASI NFR 2014-1.3)
4. Unexplained Discrepancies between GL Balances and Grant Closeout and/or Supporting Documentation (DAI ASMED NFR 2014-1.3)
5. Competitive Bidding Documentation Not Provided (DAI ASI NFR 2014-2 and DAI ASMED NFR 2014-2.1).

Review of Prior Findings and Recommendations

Kearney identified findings stated in prior audit reports that could have a material effect on the SPFS. Kearney inquired about whether DAI had implemented corrective actions plans (CAP) to address the findings, and subsequently determined the status and adequacy of those corrective actions. Of the five findings identified, we have confirmed with SIGAR representatives that all five findings have been closed. Although the findings are considered closed, Kearney notes that DAI has implemented adequate corrective actions to address only four of the five findings; DAI has not implemented corrective action to adequately address one of the five findings. Kearney noted the one finding as a repeat finding, which we reported in DAI ASMED NFR 2014-2.4. See Appendix A of this report for a summary of the prior audit findings and the status of each.

Summary of DAI's Response to Findings

DAI has provided a response to the findings contained in this report; Kearney included DAI's response in a separate appendix to this report.

SPECIAL PURPOSE FINANCIAL STATEMENTS

Development Alternatives, Inc. Special Purpose Financial Statement for Costs Incurred under ASMED Contract No. 306-C-00-07-00503-00 For the period of October 26, 2006 through November 30, 2012				Auditor's Questioned Costs Note A		
	Budget (\$) (Audited)	Actual (\$) (Audited)	Notes (Audited)	Ineligible (\$)	Unsupported (\$)	Auditor's Notes
Revenue	\$ 113,993,245	\$ 113,387,067	4	\$ 0	\$ 0	
Costs Incurred and Fees Applied:						
Salaries and Wages	17,388,955	17,243,296		0	2	B
Travel and Transportation	3,591,649	3,801,501		0	0	
Allowances	4,443,122	4,297,394		0	0	
Equipment	3,421,014	3,430,124		0	0	
Other Direct Costs	30,075,450	30,877,278		0	25,335	C
Subawards	27,826,594	26,708,521		0	0	
Alliances	13,719,344	13,622,866		0	0	
RC East Alliances	3,615,627	3,849,106		0	0	
Grants and Fee	9,911,490	9,556,981		0	419,049	D
Total Costs Incurred and Fees Applied	113,993,245	113,387,067	6	0	444,386	H
Revenue Over/(Under) Expenses	\$ 0	\$ 0	7	\$ 0	\$ (444,386)	
The accompanying notes are an integral part of this financial statement.						

Development Alternatives, Inc. Special Purpose Financial Statement for Costs Incurred under ASI Contract No. 306-DOT-I-02-08-00035-00 For the period of November 1, 2011 through September 25, 2012				Auditor's Questioned Costs Note A		
	Budget (\$) (Audited) Note 5	Actual (\$) (Audited)	Notes (Audited)	Ineligible (\$)	Unsupported (\$)	Auditor's Notes
Revenue	\$ 82,589,520	\$ 31,269,391	4	\$ 0	\$ 0	
Operational Costs Incurred and Fees Applied:						
Salaries and Wages		5,911,761		0	0	
Travel and Transportation		1,321,936		0	0	
Allowances		1,698,765		0	3,678	E
Procurement		132,946		0	0	
Other Direct Costs		11,778,004		0	7,819	F
Total Operational Costs Incurred and Fees Applied	59,326,943	20,843,412				G
Grants	18,251,472	8,101,180		0	0	
Non-Grants Under Contract Technical Assistance Program	5,011,105	2,324,799		0	0	
Total Costs Incurred and Fees Applied	82,589,520	31,269,391	6	0	11,497	H
Revenue Over/(Under) Expenses	\$ 0	\$ 0	7	\$ 0	\$ (11,497)	
The accompanying notes are an integral part of this financial statement.						

Development Alternatives, Inc.
Notes to the Special Purpose Financial Statements
(Audited)

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statements (“Statements”) include revenues and costs incurred under:

- *Afghanistan Small and Medium-Sized Enterprise Development Activity (ASMED) – Contract No. 306-C-00-07-00503-00* for the period of October 26, 2006 through October 31, 2011
- *Afghanistan Stabilization Initiative (ASI) – Contract No. 306-DOT-I-02-08-00035-00* for the period of November 1, 2011 through September 25, 2012.

Because the Statements present only a selected portion of the operations of Development Alternatives, Inc. (DAI) in Afghanistan, these Statements do not, nor are they intended to, present the financial position, changes in net assets, or cash flows of DAI in Afghanistan. The information in these Statements is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned Federal awards. Therefore, some of the amounts presented in these Statements may differ from amounts presented in, or used in the preparation of, DAI’s basic financial statements.

Note 2. Basis of Accounting

The Statements reflect the revenues received and expenses incurred under the aforementioned ASMED and ASI contracts. The Statements for each contract were prepared using a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The contractual basis of accounting is in compliance with ASMED Contract No. 306-C-00-07-00503-00 and ASI Contract No. 306-DOT-I-02-08-00035-00.

Note 3. Foreign Currency Conversion Method

DAI converts its expenses that were paid in local currency (Afghanis) into the functional currency established in each contract (U.S. Dollars [USD]) by applying the transfer rate based on the actual bank rates received for funds transferred from the USD accounts into the Afghani accounts. Balances in the Statements are reported in whole USDs.

Note 4. Revenue

Both ASI and ASMED are cost plus, fixed fee contracts, and as such, revenue is recognized as expenses are incurred. As part of DAI’s normal billing and adjustment practices, any revenue recorded in excess of cost or any amount under-billed less than cost is processed as an adjustment to the United States Agency for International Development (USAID). Any revenue

recorded in excess of cost incurred represents an adjustment due to USAID; any revenue billed that is less than the cost incurred is billed as an adjustment due to DAI.

Note 5. Budgeted to Actual Incurred Costs Comparisons

The cumulative contract budget is compared to the cumulative actual expenses incurred over the life of the project for ASMED.

For ASI, the budget reported is the cumulative approved contract budget. The expenses reported, however, are only those costs incurred for the period of November 1, 2011 through September 25, 2012. The contract reflects the cumulative budget and does not further delineate the budget by year. As such, the comparison cannot and should not be used to attribute nor estimate the budget amount remaining.

Note 6. Costs Incurred by Budget Category

The budget categories presented in the Statements are line items established in each contract. The incurred costs reported in the Statements are fully burdened utilizing approved indirect rates as stated in the Negotiated Indirect Cost Rate Agreement (NICRA). Audits of DAI's indirect rates for any period covered by the Statements are coordinated with USAID. The results of final audits of the indirect rates may result in changes to the rates applied during the preparation of these Statements.

Note 7. Revenue over/(under) Expenses

The actual Revenue over/(under) Expenses in the amount of \$0 on the Statements represents the difference between the revenues received and earned through Federal contract award and the costs incurred, including applied NICRAs and contracted fees. Based on the fieldwork conducted, Kearney identified costs deemed to be unsupported and/or ineligible, resulting in Revenue over/(under) Expenses in the amount of \$(444,386) for the ASMED contract and \$(11,497) for the ASI contract based on the findings identified in the Schedule of Findings and Responses.

Note 8. Program Status

The periods of performance for both the ASMED and ASI contracts have closed, and final program reports were submitted and accepted by USAID. Final NICRA adjustments are pending closure of DAI's incurred cost submissions by USAID.

Development Alternatives, Inc.
Auditor's Notes to the Questioned Costs

In addition to the Notes to the Financial Statements presented above associated with the Afghanistan Stabilization Initiative (ASI) and Afghanistan Small and Medium-Sized Enterprise Development Activity (ASMED) Special Purpose Financial Statements (SPFS), which are the responsibility of Development Alternatives, Inc.'s (DAI) management and identified with numerical notations, Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) has included the following alphabetical notations to facilitate understanding.

Note A. Questioned Costs

Questioned costs are those costs that are questioned by the auditor because of an audit finding potentially related to:

1. A violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds
2. Where, at the time of the audit, the costs are not supported by adequate documentation
3. Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs identified by the auditor are presented in the SPFS in two categories: unsupported and ineligible costs. Unsupported costs are those costs that, after a full review of all documentation provided, the auditor has concluded are inadequately or insufficiently documented to determine the allowability and accuracy of costs. Ineligible costs are those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or not award related. Questioned costs are fully burdened with applicable indirect rates and applicable fees assigned in the contract using the applicable year in which the expense was incurred.

The questioned costs reported as unsupported costs on the SPFS are the actual dollars questioned as a result of our testing procedures. No projected error or consideration of precision is included in these amounts.

Notes B through F. Explanation of Questioned Costs

Table 2 – Explanation of Questioned Costs

Note	Line Item	Questioned Cost Description	Schedule of Findings and Responses Reference
B	ASMED Salaries and Wages	• Unsupported costs of \$2 net due to earnings statement discrepancies	DAI ASMED NFR 2014-1.3
C	ASMED Other	• Unsupported costs of \$23,214 due to insufficient approvals	DAI ASMED NFR 2014-1.1

Note	Line Item	Questioned Cost Description	Schedule of Findings and Responses Reference
	Direct Costs (ODC)	<ul style="list-style-type: none"> Unsupported costs of \$1,336 due to unsubstantiated time Unsupported costs of \$785 due to unsupported receipt of goods/services 	DAI ASMED NFR 2014-2.4 DAI ASMED NFR 2014-2.2
D	ASMED Grants and Fees	<ul style="list-style-type: none"> Unsupported costs of \$4,128 due to clerical errors Unsupported costs of \$414,921 due to lack of competitive bidding documentation 	DAI ASMED NFR 2014-1.2 DAI ASMED NFR 2014-2.1
E	ASI Allowances	<ul style="list-style-type: none"> Unsupported costs of \$3,678 due to lack of competitive bidding documentation 	DAI ASI NFR 2014-2
F	ASI ODCs	<ul style="list-style-type: none"> Unsupported costs of (\$27) due to clerical errors Unsupported costs of \$7,846 due to lack of competitive bidding documentation 	DAI ASI NFR 2014-1.2 DAI ASI NFR 2014-2

Note G: Auditor's Note to Note 5

The ASI contract did not delineate operational costs in the budget by line item. Thus, the presentation of Total Operational Costs Incurred and Fees Applied is presented for a comparison of Total Budgeted against Total Actual Operational Costs Incurred and Fees Applied.

Note H: Auditor's Note to Note 6

DAI has not undergone incurred cost audits of its indirect rates for any period covered by the SPFS. The results of the audits of the indirect rates may result in changes to the rates applied during the preparation of these SPFS, and consequently may result in changes to the incurred costs charged to the contracts.

INDEPENDENT AUDITOR'S REPORT

To the President and Chief Executive Officer of Development Alternatives, Inc. and the Special Inspector General for Afghanistan Reconstruction

We have audited the Special Purpose Financial Statements (SPFS) of Development Alternatives, Inc. (DAI) for Contract Number 306-C-00-07-00503-00, Afghanistan Small and Medium-Sized Enterprise Development for the period of October 26, 2006 through October 31, 2011 (herein referred to as the ASMED contract); and for Contract Number 306-DOT-I-02-08-00035-00, Afghanistan Stabilization Initiative for the period of November 1, 2011 through September 25, 2012 (herein referred to as the ASI contract). The SPFS and accompanying footnote disclosures are the responsibility of DAI's management. Our responsibility is to express an opinion on the SPFS based on our audit.

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

The accompanying SPFS for each contract were prepared for the purpose of complying with financial statement presentation requirements for the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and reporting the program revenues, costs incurred and fees applied, and resulting revenue over/(under) expenses for the ASMED and ASI contracts between DAI and the United States Agency for International Development (USAID), as discussed in Note 1. Further, as described in Note 2, the SPFS for each contract were prepared using a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

In our opinion, the SPFS for each contract referred to above present fairly, in all material respects, the program revenues, costs incurred and fees applied, and resulting revenue over/(under) expenses for the indicated periods in accordance with the terms of the agreements, and in conformity with the basis of accounting described in Note 2 of the SPFS.

Our audit was conducted for the purpose of forming an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 1. Questioned costs are those costs that are questioned by the auditor because of an audit finding. Therefore:

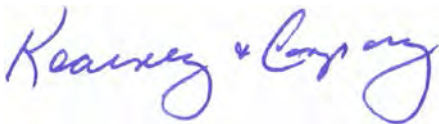
- The Transmittal Letter and the information presented in the Table of Contents, Executive Summary, and Management's Responses to Our Findings are presented for the purpose

of additional analysis and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS; accordingly, we do not express an opinion or provide any assurance on it

- The SPFS and accompanying notes are the responsibility of DAI's management. The auditor's questioned costs and accompanying notes are not part of the SPFS, and are a result of the audit procedures
- The scope of our audit of indirect costs was limited to determining whether the indirect rates per the Negotiated Indirect Cost Rate Agreement were properly applied to the direct costs and subsequently reported on the SPFS, and does not include procedures to verify the material accuracy of DAI's indirect cost rates and fixed fee rates, as discussed in Note 6 of the SPFS. These rates are subject to USAID oversight through an incurred cost audit. Therefore, such information has not been subject to the auditing procedures beyond those designed to test the application of those unaudited rates in the preparation of the SPFS; accordingly, we do not express an opinion or provide any assurance on the rates.

In accordance with *Government Auditing Standards*, we have also issued reports, dated March 21, 2014, on our consideration of DAI's internal control over financial reporting and on our tests of its compliance with certain provisions of the contract agreement and applicable laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance with certain provisions of the agreement and applicable laws and regulations, as well as 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*, and should be considered in assessing the results of our audit.

This report is intended for the information of DAI, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Alexandria, Virginia
March 21, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Chief Executive Officer of Development Alternatives, Inc. and the Special Inspector General for Afghanistan Reconstruction

We have audited the Special Purpose Financial Statements (SPFS) of Development Alternatives, Inc. (DAI) for Contract Number 306-C-00-07-00503-00, Afghanistan Small and Medium-Sized Enterprise Development for the period of October 26, 2006 through October 31, 2011 (herein referred to as the ASMED contract); and for Contract Number 306-DOT-I-02-08-00035-00, Afghanistan Stabilization Initiative for the period of November 1, 2011 through September 25, 2012 (herein referred to as the ASI contract). 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 SPFS and accompanying footnote disclosures are free of material misstatement.

DAI's management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide DAI's management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with DAI management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the SPFS in conformity with the basis of accounting described in Note 2 to the SPFS. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the SPFS, we considered DAI's internal control over financial reporting by obtaining an understanding of the design effectiveness of DAI's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of DAI's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the SPFS and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of DAI's internal control over financial reporting.

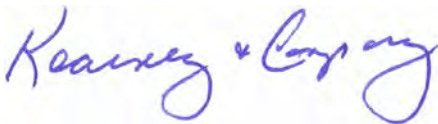
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of

Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 two deficiencies described in the accompanying Schedule of Findings and Responses, Table 3, to be material weaknesses.

Additionally, DAI's management indicated its response to the findings presented in our report. We did not audit DAI's response to our findings, and accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of DAI, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Alexandria, Virginia
March 21, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Chief Executive Officer of Development Alternatives, Inc. and the Special Inspector General for Afghanistan Reconstruction

We have audited the Special Purpose Financial Statement (SPFS) of Development Alternatives, Inc. (DAI) for Contract Number 306-C-00-07-00503-00, Afghanistan Small and Medium-Sized Enterprise Development for the period of October 26, 2006 through October 31, 2011 (herein referred to as the ASMED contract); and for Contract Number 306-DOT-I-02-08-00035-00, Afghanistan Stabilization Initiative for the period of November 1, 2011 through September 25, 2012 (herein referred to as the ASI contract), and have issued our report thereon, dated March 21, 2014. 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 SPFS is free of material misstatement resulting from violations of agreement terms, and laws and regulations that have a direct and material effect on the determination of the SPFS amounts. DAI's management is responsible for compliance with agreement terms and applicable laws and regulations.

As part of obtaining reasonable assurance about whether the SPFS for each contract are free of material misstatement, we performed tests of DAI's compliance with certain provisions of agreement terms, and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance with certain provisions of agreement terms and applicable laws and regulations disclosed five instances of noncompliance described in the accompanying Schedule of Findings and Responses, Table 4, that are required to be reported under *Government Auditing Standards*.

Auditors must plan and perform the audit to obtain sufficient appropriate audit evidence for obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). The results of our tests of compliance with certain provisions of agreement terms and applicable laws and regulations did not disclose any instances of fraud or abuse. However, our objective was not to provide an opinion on instances of fraud. Accordingly, we do not express such an opinion.

Additionally, DAI's management indicated its response to the findings presented in our report. We did not audit DAI's response to our findings, and accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of DAI, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction,

and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Alexandria, Virginia
March 21, 2014

SCHEDULE OF FINDINGS AND RESPONSES

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) noted individual control deficiencies that, in the aggregate, resulted in two material weaknesses, as shown in Table 3 below. The individual control deficiencies that contributed to the material weaknesses identified below are documented in the Condition sections of the referenced Notifications of Finding and Responses (NFR), and are summarized and referenced here accordingly.

Additionally, certain conditions resulted in instances of noncompliance, as noted in Table 4 below.

Table 3 – Material Weaknesses

Specific to the Salaries, Other Direct Costs (ODC) and the Grants balances for both the Afghanistan Small and Medium-Sized Enterprise Development Activity (ASMED) and Afghanistan Stabilization Initiative (ASI) contracts and the subcontractors balance for the ASMED contract, Kearney noted a significant amount of questioned costs and instances of noncompliance. Although the total questioned costs were not aggregately material to the financial statements taken as a whole, we believe that these cost categories are of particular significance to DAI and represent a substantial proportion of the financial statements. We also believe that the issues noted within those cost categories could have a pervasive effect on the financial statements, indicating that there is more than a remote likelihood of material misstatement that could go undetected. Further, we believe the ODC line items are particularly sensitive, due to their composition and significance in relation to other line items, to the users of the financial statements.

Deficiency Summary	Schedule of Findings and Responses Reference
Material Weakness #1 – Inadequate Review and Approval Procedures: Development Alternatives, Inc. (DAI) did not have adequate internal review and approval procedures in place during the periods under audit.	
<ul style="list-style-type: none"> Relevant supporting documentation for ODCs was not properly approved, resulting in unsupported costs of \$23,214. One other exception was noted because two grant modifications were not signed 	DAI ASMED NFR 2014-1.1
<ul style="list-style-type: none"> A control deficiency was noted based on unexplained discrepancies between the final monitoring reports and general ledger (GL) balances 	DAI ASI NFR 2014-1.1
<ul style="list-style-type: none"> Unexplained discrepancies between GL balances and supporting documentation for payroll resulted in unsupported costs of \$2. Two additional exceptions were noted for grants and ODCs based on unexplained discrepancies between GL balances and grant 	DAI ASMED NFR 2014-1.3

Deficiency Summary	Schedule of Findings and Responses Reference
closeout/supporting documentation	
<ul style="list-style-type: none"> Unprevented/undetected clerical errors pertaining to ODCs and grant transactions resulted in unsupported costs of (\$27) and \$4,128, respectively. One other exception was noted because two ODC invoices and a subcontractor invoice contained calculation errors 	DAI ASI NFR 2014-1.2 DAI ASMED NFR 2014-1.2
<ul style="list-style-type: none"> Grant documentation was not properly reviewed, resulting in incorrect coding in the GL and lack of relevant information on the grant agreement 	DAI ASMED NFR 2014-1.4
Material Weakness #2 – Inadequate Recordkeeping: DAI was unable to provide adequate supporting documentation, as the required documentation to support the controls, and in some instances the costs incurred, was unavailable or did not exist.	
<ul style="list-style-type: none"> Lack of competitive bidding documentation for allowances and ODCs resulted in unsupported costs of \$11,524, and lack of competitive bidding documentation for grants resulted in unsupported costs of \$414,921. Two additional exceptions pertaining to competitive bidding documentation were noted for allowances and ODCs 	DAI ASI NFR 2014-2 DAI ASMED NFR 2014-2.1
<ul style="list-style-type: none"> Lack of documentation to support receipt of goods/services and costs incurred resulted in unsupported costs of \$785 and \$1,336. One other exception was noted because a signed purchase order (PO) was not provided 	DAI ASMED NFR 2014-2.2 DAI ASMED NFR 2014-2.4

Table 4 – Instances of Noncompliance and Other Matters

Instance of Noncompliance	Schedule of Findings and Responses Reference
The Alliance Final Report was not provided	DAI ASMED NFR 2014-2.3
There were unexplained discrepancies between the final monitoring reports and GL balances	DAI ASI NFR 2014-1.1
Untimely payments were made	DAI ASI NFR 2014-1.3 DAI ASMED NFR 2014-1.5
There were unexplained discrepancies between GL balances and grant closeout and/or supporting documentation	DAI ASMED NFR 2014-1.3
Competitive bidding documentation was not provided	DAI ASI NFR 2014-2 DAI ASMED NFR 2014-2.1

DAI ASMED NFR 2014-1

Condition: Inadequate DAI internal processes over ASMED transactions occurring between October 26, 2006 and November 30, 2012 resulted in control deficiencies and a total of \$27,344 in unsupported costs, which are described in further detail below. The dollar values reported in this finding are whole USD fully burdened using the rates per DAI's Negotiated Incurred Cost Rate Agreement (NICRA) and other relevant fees to the contract.

ASMED NFR 2014-1.1 – Insufficient Approvals

Relevant supporting documentation pertaining to grants and ODCs was not properly approved by supervisory DAI personnel in the following instances:

- Grants – For a total of two instances occurring in 2011, grant modifications were not signed and agreed to by the grantee; however, additional documentation provided sufficiently supported the costs, including proper signatures on subsequent modifications. These instances did not result in questioned costs
- ODCs – For one instance in 2008, the PO, invoice, and payment occurred outside the period of performance. The PO indicated that the vendor and DAI agreed that training had to continue outside the period of performance; however, this was not updated on the signed PO. While the payment was not made until after the PO was approved, the PO was not signed until after the period of performance had been completed and the costs were incurred prior to the PO being approved, resulting in unsupported costs of \$23,214. The unburdened costs associated with this instance are [REDACTED].

ASMED NFR 2014-1.2 – Clerical Errors

Clerical errors were not prevented or detected by DAI's internal controls in the following instances:

- ODCs – For a total of two instances, an ODC invoice contained a calculation error. The errors resulted in a lower amount billed to DAI than what should have been billed. As a result, these errors did not result in questioned costs
- Grants – For one instance in 2008, the grant agreement contained a clerical error that resulted in DAI's contribution being recorded as \$0, while other documentation supported the transaction value. This instance resulted in unsupported costs of \$4,128. [REDACTED]

ASMED NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout and/or Supporting Documentation

Unexplained discrepancies remained between GL balances and grant closeout and/or supporting documentation in the following instances:

- Grants – For a total of 21 instances, the supporting grant closeout documentation did not agree to the corresponding balances per the GL. While none of these costs are considered to be unsupported as sufficient supporting documentation was provided to support the individual costs, a control deficiency was noted because Kearney was unable to verify properly completed closeout forms for multiple grants, totaling \$1,443,987. Kearney noted this as a control deficiency, as it may lead to inaccurate costs and incomplete grant closeouts in the future
 - Out of the 21 instances, for five individual grant numbers affecting 10 sample items, an updated final report was not issued, causing a discrepancy between the information in the report and reported GL amounts; the GL amounts were supported by other documentation
 - For four individual grant numbers affecting eight sample items, the transactions that made up the GL amount had the incorrect ASMED grant number coded, resulting in misclassified grant expenses
 - For one individual grant number affecting three sample items, DAI indicated that an advance transaction should have been liquidated; however, the liquidation was not included in the Technical Administrative Management Information System closeout documentation
- Payroll – For a total of two instances, the amount per the earnings statement did not agree to the corresponding balances per the GL. One discrepancy occurred in 2008 and totaled \$6. The other discrepancy occurred in 2011 and totaled \$(4). The net amount of this issue is \$2 of unsupported costs. [REDACTED]
- ODCs – For one instance in 2011, the amount paid to the employee did not reconcile to the GL. However, the costs related to this transaction were already noted as unsupported in NFR 2014-2; therefore, the costs are not reported twice.

ASMED NFR 2014-1.4 – Improper Review Procedures

Adequate review procedures were not performed over grants in the following instances:

- For one instance in 2009, the incorrect grant number was coded in the GL (Note: This instance is not the same as the incorrect GL coding instance noted above). Kearney noted that the costs were otherwise fully supported; therefore, these costs were not classified as unsupported
- For one instance in 2010, the period of performance was not indicated on the grant agreement and additional documentation provided did not provide evidence as to when the period of performance occurred. However, additional documentation provided indicated when the project began, and payment and work was not completed until after the start date of the grant.

ASMED NFR 2014-1.5 – Untimely Payments

Timing issues were noted in the supporting documentation provided by DAI in the following instances:

- For one instance in 2010 for ODCs, the payment was not made until more than six months after the receipt of the invoice. DAI was unable to provide evidence that the six-month delay was the result of DAI's ongoing invoice review procedures
- The other instance occurred in 2008 for subcontractors, in which the request for a modification was not made until six months after the period of performance had ended for the original contract.

DAI was able to provide other relevant documentation to verify that the costs incurred were reasonable, and as such, these instances did not result in unsupported costs.

Cause: DAI did not have adequate internal review processes, specifically related to internal controls related to review and approval, in place during the period under audit to:

- Ensure documentation was reviewed and approved as appropriate, and was timely and adequately maintained to support incurred costs (ASMED NFRs 2014-1.1, 2014-1.4, and 2014-1.5)
- Identify and correct clerical errors during the course of its review processes (ASMED NFR 2014-1.2)
- Ensure relevant reconciliations between the GL and source documentation were prepared, approved, and appropriately maintained (ASMED NFR 2014-1.3).

Criteria: The following criteria apply to the various conditions identified, which are referenced accordingly as noted below.

ASMED NFR 2014-1.1 – Insufficient Approvals, ASMED NFR 2014-1.4 – Improper Review Procedures, and ASMED NFR 2014-1.5 – Timing Issues

Per the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999:

“Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

Further, per the Federal Acquisition Regulation (FAR), Subpart 52.2, *Text of Provisions and Clauses*, Section 52.216-7 “Allowable Cost and Payment”:

“(b) Reimbursing costs

- (1) For the purpose of reimbursing allowable costs (except as provided in paragraph (b)(2) of this clause, with respect to pension, deferred profit sharing, and employee stock ownership plan contributions), the term “costs” includes only—...
- (ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for—

- (A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments determined due will be made—
 - (1) In accordance with the terms and conditions of a subcontract or invoice; and
 - (2) Ordinarily within 30 days of the submission of the Contractor's payment request to the Government."

ASMED NFR 2014-1.2 – Clerical Errors

Per the FAR, Subpart 31.2, *Costs with Commercial Organizations*, Section 31.201-2, "Determining Allowability":

"(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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

ASMED NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout and/or Supporting Documentation

Per the Code of Federal Regulations (CFR), Section 226.53, "Retention and Access Requirements for Records":

"(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.

(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."

Per the CFR, Section 226.71, "Close-out Procedures":

"(a) Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. USAID may approve extensions when requested by the recipient.

(b) Unless USAID authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions."

Effect: The grant closeout documentation and/or GL could be incomplete because the reconciliations and resulting discrepancies were not properly performed and/or documented. Lack of reconciliation and/or resolution of discrepancies resulting from the reconciliation increases the risk that costs are assigned to the incorrect grant(s), which could result in a grant being over-expended.

Internal controls, in some instances, may not be operating effectively to prevent or detect material misstatements.

Recommendations: Kearney recommends that:

Recommendation #1: DAI improve procedures to ensure that proper reconciliations, reviews, and approvals are performed and adequately documented with sufficient support for all contract costs incurred.

Recommendation #2: DAI either provide the necessary supporting documentation or reconciliations to USAID in support of their contract closeout procedures, or return the unsupported amount of \$27,344 based on lack of supporting documentation or explanations for the variances identified.

Management's Response:

DAI's management provided an overall response to the Audit Report and specific responses to each individual finding. The full text of DAI's response is included in Appendix B, Development Alternatives, Inc.'s Response to Audit Report.

Auditor's Evaluation of Management's Response:

Kearney has provided an evaluation of Management's Response in Appendix C.

DAI ASMED NFR 2014-2

Condition: DAI internal processes did not produce or retain sufficient documentation for ASMED transactions occurring between October 26, 2006 and November 30, 2012, resulting in control deficiencies and a total of \$417,042 unsupported costs, which are described in further detail below. The dollar values reported in this finding are whole USD fully burdened using the rates per DAI's NICRA and other relevant fees to the contract.

ASMED NFR 2014-2.1 – Competitive Bidding Documentation

DAI did not provide sufficient documentation to evidence that competitive bidding procedures were followed when required, in the following instances:

- Allowances – A total of two instances occurred in 2009 in which sufficient bidding documentation was created well after the costs were incurred to support the fair value assessment and were not documented prior to the award. While the costs are overall supported, a control issue was noted due to the long delay in the bidding documentation being produced
- ODCs – Kearney noted that:
 - For one instance in 2007, an adequate number of bids were not provided; however, the costs associated with this transaction were considered reasonable based on other relevant documentation available for review. Therefore, we reported this as a control deficiency
 - For one instance in 2010, DAI ASMED evidence of proper bidding procedures were not completed/documented; however, the costs were associated with similar lease agreements around the same time, and the costs were deemed reasonable
- Grants – A total of six instances occurred in which adequate bidding procedures were not conducted over grant agreements. Since proper sole source justification or fair market value assessment was not conducted, the total amount of \$414,921 for each of the six grant agreements is questioned. [REDACTED]

Process	Instances	Transaction Tested	Agreement/ Contract Amount	Year
Grants	1	\$ 14,000	\$ 14,000	2007
Grants	2	74,230	248,800	2010
Grants	2	17,253	73,621	2011
Grants	1	13,400	78,500	2012
Total	6	\$ 118,883	\$ 414,921	

ASMED NFR 2014-2.2 – Purchase Orders, Receiving Reports, and Invoices

DAI could not provide sufficient documentation to support costs incurred and/or receipt of goods/services for ODCs in the following instances:

- For one instance in 2007, documentation to evidence receipt of goods/services was not provided, resulting in unsupported costs of \$785. [REDACTED]
- For one instance in 2010, a signed PO was not provided; however, the costs and services were included in the fully executed indefinite quantity contract (IQC) and receipt of services was also provided. Therefore, only a control deficiency was noted.

ASMED NFR 2014-2.3 – Alliance Final Report

The Alliance Final Report, as required by the ASMED Global Development Alliance (GDA) Policies and Procedures to support the closeout of the alliance agreement, was not provided in the following instances:

- In two instances in 2010, the Alliance Final Report was not provided; however, additional documentation, including quarterly and annual reports, were provided to support adequate closure of the Alliance agreement, resulting in a control issue and no questioned costs
- In one instance in 2011, the Alliance Final Report was not provided; however, additional documentation, including quarterly and annual reports, were provided to support adequate closure of the Alliance agreement, resulting in a control issue and no questioned costs
- In one instance in 2012, a transaction was inadequately coded as a subcontractor cost when it should have been a grant cost. Kearney did receive adequate grant closure documentation for this transaction; therefore, only a control issue was noted for inaccurate recordation of the transaction.

ASMED NFR 2014-2.4 – Miscellaneous

For one ODC transaction occurring in 2011, the timesheet was not provided to support the hours worked/costs incurred, resulting in unsupported costs of \$1,336. [REDACTED]

Cause: DAI was unable to provide adequate supporting documentation, as the required documentation to support the controls, and in some instances the costs incurred, was unavailable or did not exist. Due to records maintenance and retention practices in place during the contract period, DAI's records are maintained in hard copy, which further complicates DAI's ability to provide sufficient, timely supporting documentation.

Criteria: Per the FAR, Subpart 13.0, *Simplified Acquisition Procedures*, Section 13.003, “Policy”:

- “(a) Agencies shall use simplified acquisition procedures to the maximum extent practicable for all purchases of supplies or services not exceeding the simplified acquisition threshold (including purchases at or below the micro-purchase threshold). This policy does not apply if an agency can meet its requirement using—
- (1) Required sources of supply under Part 8 (*e.g.*, Federal Prison Industries, Committee for Purchase from People Who are Blind or Severely Disabled, and Federal Supply Schedule contracts);
 - (2) Existing indefinite delivery/indefinite quantity contracts; or
 - (3) Other established contracts.
- (b)(1) Each acquisition of supplies or services that has an anticipated dollar value exceeding \$3,000 (\$15,000 for acquisitions as described in 13.201(g)(1)) and not exceeding \$100,000 (\$250,000 for acquisitions described in paragraph (1) of the Simplified Acquisition Threshold definition at 2.101) is reserved exclusively for small business concerns and shall be set aside (see 19.000 and Subpart 19.5). See 19.000(b) and 19.502-2 for exceptions.”

Per the FAR, Subpart 13.1, *Procedures*, Section 13.104, “Promoting Competition”:

- “The contracting officer must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, considering the administrative cost of the purchase.
- (a) The contracting officer must not—
 - (1) Solicit quotations based on personal preference; or
 - (2) Restrict solicitation to suppliers of well-known and widely distributed makes or brands.
 - (b) If using simplified acquisition procedures and not providing access to the notice of proposed contract action and solicitation information through the Governmentwide point of entry (GPE), maximum practicable competition ordinarily can be obtained by soliciting quotations or offers from sources within the local trade area. Unless the contract action requires synopsis pursuant to 5.101 and an exception under 5.202 is not applicable, consider solicitation of at least three sources to promote competition to the maximum extent practicable. Whenever practicable, request quotations or offers from two sources not included in the previous solicitation.”

Per DAI’s *Field Procurement Guide*, dated October 2009, “If total anticipated price is between \$2,500 and less than \$100,000... Requires three written bids from vendors.”

Per CFR, Section 226.53, “Retention and Access Requirements for Records”:

“(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.

(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.”

DAI *ASMED GDA Policies and Procedures*, Section 4.7, states, “The designated GDA-Partners shall submit, within 60 calendar days after the completion of the award, the final performance report containing the results accomplished during the award.”

Effect: The conditions noted above, in regard to lack of supporting documentation, may result in the following:

- Increased risk that costs incurred are greater than the fair market value and/or the Government not receiving the best value for procured goods/services when a contractor lacks sufficient competitive bidding documentation
- Increased risk that the work was not completed by the alliance or the costs claimed are not accurate due to lack of sufficient final report and closeout documentation
- Increased likelihood or frequency that other miscellaneous costs incurred are unallowable because relevant documentation was not provided.

Recommendations: Kearney recommends that:

Recommendation #3: DAI either provide the necessary supporting documentation or reconciliations to USAID in support of their contract closeout procedures, or return the unsupported amount of \$417,042 based on lack of supporting documentation or explanations for the variances identified.

Recommendation #4: DAI improve procedures to ensure that adequate documentation is maintained and readily available to support all costs incurred. This Recommendation should also be applied in the correction of DAI ASI NFR 2014-2.

Management’s Response:

DAI’s management provided an overall response to the Audit Report and specific responses to each individual finding. The full text of DAI’s response is included in Appendix B, Development Alternatives, Inc.’s Response to Audit Report.

Auditor’s Evaluation of Management’s Response:

Kearney has provided an evaluation of Management’s Response in Appendix C.

DAI ASI NFR 2014-1

Condition: Inadequate DAI internal processes over ASI transactions occurring between November 1, 2011 and September 25, 2012 resulted in control deficiencies and a total of (\$27) in unsupported costs, which are described in further detail below. The dollar values reported in this finding are whole USDs fully burdened using the rates per DAI's NICRA and other relevant fees to the contract.

ASI NFR 2014-1.1 – Unexplained Discrepancies between the Final Monitoring Reports and General Ledger Balances

The actual grant costs per the FMR did not agree to the corresponding balances per the GL. This condition was noted for 10 individual grant numbers affecting 13 sample items, and is further broken down as follows:

- For six individual grant numbers affecting seven sample items, the actual grant costs were not refreshed on the FMR
- For one grant number affecting one sample item, the gross costs were recorded in the FMR and the net costs were recorded in the GL
- For three individual grant numbers affecting five sample items, transactions were posted under the incorrect grant number in the GL.

The full value of the 10 individual grant agreements was \$598,389, but the conditions stated above did not result in questioned costs, as the GL balances were materially accurate and the documentation provided by DAI sufficiently supported the reasonableness and amounts of the transactions tested.

ASI NFR 2014-1.2 – Clerical Errors

Clerical errors were not prevented or detected by DAI's internal controls. This condition was noted in the following four instances, all of which pertain to ODC transactions occurring in 2012:

- For two out of the four instances, invoice and allowance amounts were miscalculated, resulting in improper payments of (\$45) and \$18, respectively. Kearney deemed the total net improper payment of (\$27) to be unsupported. The net amount does not represent an overpayment; however, Kearney noted this amount as unsupported because it is indicative of inadequate controls in this particular instance. [REDACTED]
- In the third instance, DAI confirmed that it paid \$2,411 to an employee for annual leave in excess of the 120 hour maximum allowed per DAI's Administrative Procedures Manual. However, during follow-up, DAI adjusted the SPFS to reflect the correction of the overpayment and provided an updated SPFS, which is presented in this report. While this item remains a finding, Kearney did not question the costs associated with this item

- In the final instance, a subcontractor invoice contained a calculation error. The error resulted in a lower amount billed to DAI than what should have been billed. As a result, the error did not result in questioned costs.

ASI NFR 2014-1.3 – Untimely Payments

For two ODC transactions, one each occurring in 2011 and 2012, the invoice was paid more than six months after the invoice receipt date. DAI stated that the delay was the result of its ongoing invoice review procedures, but was unable to provide evidence of that ongoing review. However, DAI was able to provide other relevant documentation to verify that the costs incurred were reasonable, and as such, these instances did not result in questioned costs.

Cause: DAI did not have adequate internal review processes, specifically related to internal controls related to review and approval, in place during the period under audit to:

- Ensure that the FMR was properly prepared and reconciled to the GL (ASI NFR 2014-1.1)
- Identify and correct clerical errors, including erroneous payments to vendors and personnel, during the course of its review processes (ASI NFR 2014-1.2)
- Prevent untimely payments to vendors (ASI NFR 2014-1.3).

Criteria: The following criteria apply to the various conditions identified, which are referenced accordingly as noted below.

ASI NFR 2014-1.1 – Unexplained Discrepancies between the Final Monitoring Reports and General Ledger Balances

Per the CFR, Section 226.53, “Retention and Access Requirements for Records”:

“(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.

(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.”

Per the CFR, Section 226.71, “Close-out Procedures”:

“(a) Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. USAID may approve extensions when requested by the recipient.

(b) Unless USAID authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.”

ASI NFR 2014-1.2 – Clerical Errors

Per the FAR, Subpart 31.2, *Costs with Commercial Organizations*, Section 31.201-2, “Determining Allowability”:

“(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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

DAI’s *Administrative Procedures Manual*, dated March 2010, states, “Up to fifteen (15) days of annual leave may be paid out upon resignation or at the termination of the project.”

ASI NFR 2014-1.3 – Untimely Payments

Per the FAR, Subpart 52.2, *Text of Provisions and Clauses*, Section 52.216-7, “Allowable Cost and Payment”:

“(b) Reimbursing costs

- (1) For the purpose of reimbursing allowable costs (except as provided in paragraph (b)(2) of this clause, with respect to pension, deferred profit sharing, and employee stock ownership plan contributions), the term “costs” includes only—...
- (ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for—
 - (A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments determined due will be made—
 - (1) In accordance with the terms and conditions of a subcontract or invoice; and
 - (2) Ordinarily within 30 days of the submission of the Contractor’s payment request to the Government.”

Per the GAO’s *Standards for Internal Control in the Federal Government*, dated November 1999:

“Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

Effect: The FMR and/or GL could be incomplete because the reconciliations and resulting discrepancies were not properly performed and/or documented. Lack of reconciliation and/or resolution of discrepancies resulting from the reconciliation increases the risk that costs are assigned to the incorrect grant(s), which could result in a grant being over-expended.

The clerical errors noted within the ODC supporting documentation resulted in (\$27) of net unsupported costs, which is reported as such in the Special Purpose Financial Statement (SPFS) for the contract period of November 1, 2011 through September 25, 2012.

Untimely payments increase the risk for improper or non-payment because the project personnel would not be as familiar with the validity of the charges on the invoice due to the lapse in time since the goods or services were received. Additionally, full costs would not be reported to USAID in a timely manner, which could result in questioned costs.

Recommendations: Kearney recommends that:

Recommendation #5: DAI improve procedures to ensure that the FMR is properly prepared and reconciled to the GL; identify and correct clerical errors, including erroneous payments to vendors and personnel, during the course of its review processes; and prevent untimely payments to vendors.

Recommendation #6: DAI improve procedures to identify and correct clerical errors, including erroneous payments to vendors and personnel, during the course of its review processes.

Recommendation #7: DAI improve procedures to prevent untimely payments to vendors.

Recommendation #8: DAI either provide the necessary supporting documentation or reconciliations to USAID in support of their contract closeout procedures, or make an appropriate adjustment for the unsupported amount of (\$27) based on lack of supporting documentation or explanations for the variances identified.

Management's Response:

DAI's management provided an overall response to the Audit Report and specific responses to each individual finding. The full text of DAI's response is included in Appendix B, Development Alternatives, Inc.'s Response to Audit Report.

Auditor's Evaluation of Management's Response:

Kearney has provided an evaluation of Management's Response in Appendix C.

DAI ASI NFR 2014-2

Condition: DAI internal processes did not produce or retain sufficient documentation for ASI transactions occurring between November 1, 2011 and September 25, 2012, resulting in a control deficiency and a total of \$11,524 in unsupported costs, which is described in further detail below. The dollar values reported in this finding are whole USDs fully burdened using the rates per DAI's NICRA and other relevant fees to the contract.

DAI did not provide sufficient documentation to evidence that competitive bidding procedures were followed when required in the following instances:

- Allowances – One instance occurring in 2011, valued at \$3,678. [REDACTED]
- ODCs – One instance occurring in 2012, valued at \$7,846. [REDACTED]

Cause: DAI was unable to provide supporting documentation for the unsupported costs, as the required documentation to support the amounts was unavailable or does not exist. Due to records maintenance and retention practices in place during the contract period, DAI's records are maintained in hard copy, which further complicates DAI's ability to provide sufficient, timely supporting documentation.

Criteria: Per the FAR, Subpart 13.0, *Simplified Acquisition Procedures*, Section 13.003, "Policy":

- “(a) Agencies shall use simplified acquisition procedures to the maximum extent practicable for all purchases of supplies or services not exceeding the simplified acquisition threshold (including purchases at or below the micro-purchase threshold). This policy does not apply if an agency can meet its requirement using—
- (1) Required sources of supply under Part 8 (e.g., Federal Prison Industries, Committee for Purchase from People Who are Blind or Severely Disabled, and Federal Supply Schedule contracts);
 - (2) Existing indefinite delivery/indefinite quantity contracts; or
 - (3) Other established contracts.
- (b)(1) Each acquisition of supplies or services that has an anticipated dollar value exceeding \$3,000 (\$15,000 for acquisitions as described in 13.201(g)(1)) and not exceeding \$100,000 (\$250,000 for acquisitions described in paragraph (1) of the Simplified Acquisition Threshold definition at 2.101) is reserved exclusively for small business concerns and shall be set aside (see 19.000 and Subpart 19.5). See 19.000(b) and 19.502-2 for exceptions.”

Per the FAR, Subpart 13.1, *Procedures*, Section 13.104, “Promoting Competition”:

“The contracting officer must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, considering the administrative cost of the purchase.

(a) The contracting officer must not—

- (1) Solicit quotations based on personal preference; or
- (2) Restrict solicitation to suppliers of well-known and widely distributed makes or brands.

(b) If using simplified acquisition procedures and not providing access to the notice of proposed contract action and solicitation information through the Governmentwide point of entry (GPE), maximum practicable competition ordinarily can be obtained by soliciting quotations or offers from sources within the local trade area. Unless the contract action requires synopsis pursuant to 5.101 and an exception under 5.202 is not applicable, consider solicitation of at least three sources to promote competition to the maximum extent practicable. Whenever practicable, request quotations or offers from two sources not included in the previous solicitation.”

Per DAI’s *Field Procurement Guide*, dated October 2009:

“If total anticipated price is between \$2,500 and less than \$100,000... Requires three written bids from vendors.”

Per the FAR, Subpart 31.2, *Contracts with Commercial Organizations*, Section 31.201-2, “Determining Allowability”:

“(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...”

Effect: Lack of sufficient competitive bidding documentation increases the risk that costs incurred are greater than the fair market value, and/or the Government does not receive the best value for procured goods/services.

Recommendations: Kearney recommends that:

Recommendation #9: DAI either provide the necessary supporting documentation to USAID in support of their contract closeout procedures, or return the unsupported amount of \$11,524 based on lack of supporting documentation.

Management's Response:

DAI's management provided an overall response to the Audit Report and specific responses to each individual finding. The full text of DAI's response is included in Appendix B, Development Alternatives, Inc.'s Response to Audit Report.

Auditor's Evaluation of Management's Response:

Kearney has provided an evaluation of Management's Response in Appendix C.

APPENDIX A – PRIOR AUDIT FINDINGS AND STATUS

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) identified findings stated in prior audit reports that could have a material effect on the Special Purpose Financial Statements (SPFS). Kearney then inquired whether Development Alternatives, Inc. (DAI) implemented corrective action plans (CAP) to address the findings and determined the status of the CAPs. Kearney identified the following prior audit findings:

Financial Audit of Costs Incurred by DAI for ASMED (USAID Office of Inspector General Audit Report No. F-306-12-002-N)

The following represents a summary of the finding issued by HLB Ijaz Tabussum & Co. Chartered Accountants in their report, dated August 22, 2011:

Previously Reported Finding	Status
The auditor concluded that technology purchases of approximately \$88,000 (U.S. Dollars [USD]) were ineligible and not in line with the general objectives of the Afghanistan Small and Medium-Sized Enterprise Development (ASMED) project.	DAI disagreed with the finding, indicating that the grant was approved by the United States Agency for International Development (USAID) to develop the knowledge of technology for students in Afghanistan. The report has not been finalized to date as to whether this issue is closed or needs corrective action.

Contractor Performance and Oversight/Stabilization Initiative (SIGAR Audit-12-11)

The following represents a summary of the findings related to DAI’s Afghanistan Stabilization Initiative (ASI) contract, as reported by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in their report, dated June 29, 2012:

Previously Reported Findings	Status
<u>Finding 1:</u> SIGAR concluded that DAI’s role in administering a subcontract with Altai Consulting to perform monitoring and evaluation services was essentially limited to reviewing and approving invoices for payment, and did not allow for normal oversight responsibilities, as required by Federal Acquisition Regulation (FAR) 42.202(E)(2). As a result, SIGAR questioned approximately \$500,000 in costs related to the Altai Consulting subcontract.	Through execution of our audit procedures, Kearney inquired of changes to DAI’s process or ability to monitor the Altai Consulting subcontract. The Office of Transition Initiative (OTI) Mitigation Plan or the roles and responsibilities of USAID OTI and DAI have not changed; however, DAI maintains that the costs are reasonable and that its responsibilities for the management of the subcontract were met. Based on review of additional evidence provided by USAID to SIGAR, the finding was closed.
<u>Finding 2:</u> SIGAR identified costs related to a DAI Iraq contract erroneously charged to the ASI contract.	Based on review of additional evidence provided by USAID to SIGAR, the finding was closed.

Previously Reported Findings	Status
<u>Finding 3:</u> SIGAR identified questioned costs related to maintenance of full comprehensive and war insurance on vehicles not in service.	Based on review of additional evidence provided by USAID to SIGAR, the finding was closed.
<u>Finding 4:</u> SIGAR noted miscellaneous exceptions and discrepancies related to timekeeping and billing.	During the execution of our audit procedures, Kearney noted that DAI continued to have challenges providing some supporting documentation related to incurred costs. See Finding DAI ASMED 2014-2.4 in the Schedule of Findings and Responses section of this report.

APPENDIX B – DEVELOPMENT ALTERNATIVES, INC.’S RESPONSE TO AUDIT REPORT

DAI Management Response to Findings Reported on March 21, 2014 for Financial Audits of Costs Incurred under Contract Numbers:

- 306-C-007-00503-00 (for the period October 26, 2006 through November 30, 2012) – Afghanistan Small and Medium-Sized Enterprise Development Activity (ASMED) and
- 306-DOT-I-02-08-0035-00 (for the period November 1, 2011 through September 25, 2012) – Afghanistan Stabilization Initiative (ASI)

DAI appreciates the opportunity to provide our comprehensive response to the audit report prepared by Kearney & Company for SIGAR. It is important for the reader to have a full understanding of all the items included in the audit report in forming an opinion on the reasonability, allocability and allowability of questioned costs.

In response to the reported findings, DAI either concurs with the auditor’s findings and provides a description of the corrective actions that we have taken to mitigate the identified risk on future projects or we indicate why we disagree with an audit finding and describe in detail the corroborating evidence provided to the auditor that supports our position.

1. The audit report reflects a number of assertions that are not supported by the results of audit testing:

- a. The auditor defines questioned costs as those where “DAI was unable to provide sufficient supporting documentation, including evidence of proper approvals to determine the accuracy and allowability of the costs.”
 - **DAI provided extensive documentation in support of the costs.** Over 91% of the questioned costs relate to six grants that were properly documented by DAI and approved by USAID prior to award. The auditor reports these costs as unsupported based on their interpretation of documentation requirements for the competitive bidding of these respective grants.

DAI managed these grants in accordance with requirements of the Contract and the USAID approved Grants Manual which prescribed by intent “**that many ASMED grants will not be awarded competitively**” in order to permit strategic identification of sectors, partners and grant recipients that fit the goals and objectives of the ASMED program.

- b. The auditor asserts that a “significant amount of questioned costs and instances of non-compliance were identified, that the questioned costs represent a substantial proportion of the financial statements, that there could be a pervasive effect on our financial statements and that there is more than a remote likelihood of material misstatements that could go undetected.”

DAI maintains that **persuasive documentation supports all but \$2,123 of costs questioned in the audit report.**

- **DAI disagrees that the questioned costs represent a substantial portion of our financial statement and/or that there could be a pervasive effect on our financial statements. Additionally, the results of the audit testing do not provide a basis to the claim that there is a more than remote likelihood of material misstatements that could or would go undetected.**

2. **There was no materiality threshold used in the audit.**

- Considering the dollar value of program costs exceeded \$144 million applying a materiality threshold of \$0 resulted in audit findings that are significantly disproportionate to costs incurred for conducting and supporting this audit. Significant resources were expended by the auditor and DAI in the research and substantiation of a number of findings that, by all accounting and auditing standards are immaterial and should not have been included in the report.

3. **DAI's continuous focus on Internal Controls and Compliance** - As stewards of taxpayer resources DAI takes its responsibilities for internal controls and compliance very seriously. As detailed in the attached management response to each finding, DAI is committed to timely reviews of business processes and continuous improvements to our systems and policies to achieve 100% compliance with all relevant rules and regulations.

- Examples of DAI continuous improvement efforts include:
 - ✓ **Electronic Archiving System** – DAI has implemented an **electronic archiving system** to enhance the permanent archiving of critical project records. This solution will not only reduce project costs incurred to ship documents back to the home office for permanent storage but will also provide for more efficient access to project records for future inquiries and close outs.
 - ✓ **Mandatory Ethics Training** – DAI requires all employees to take **online ethics training** that includes testing to demonstrate their understanding of the content covered.
 - ✓ **Field Procurement Training** – DAI initiated a **comprehensive field procurement training program** on a regional basis.

DAI believes that the above demonstrate our commitment to implementing and ensuring adequate controls and compliance with contractual, regulatory and best practices.

4. Costs are important but are not the only measure for determining reasonableness, allowability, allocability and success. It is equally important to consider the objectives of the programs and achievements of the programs in one of the most difficult working

environments in the world.

- **After extensive testing of over 500+ transactions the auditors' report does not challenge whether work was performed or value was received but mostly focuses on the completeness of paperwork prepared in the field.** It is important to note that all program activities were performed in close collaboration with the Contracting Officer (CO) and Cognizant Technical Officer (CTO) and there are significant documented achievements that were derived from the costs incurred.
- USAID judges the effectiveness and value of all programs using the Contractor Performance Assessments which are shown below and are indicative of the overall high quality and value of the ASMED and ASI programs:

**USAID CONTRACTOR PERFORMANCE SCORES
("CPARS")**

KEY AREA	ASMED - 7/8/12	ASI - 12/21/11
QUALITY	EXCEPTIONAL	VERY GOOD
SCHEDULE	VERY GOOD	SATISFACTORY
COST CONTROL	VERY GOOD	VERY GOOD
BUSINESS		
RELATIONS	EXCEPTIONAL	VERY GOOD
MGT OF KEY		
STAFF	VERY GOOD	VERY GOOD
SMALL		
BUSINESS	VERY GOOD	N/A

Available scores range from Unsatisfactory, Marginal, Satisfactory, Very Good to Exceptional

Note: In the ASI CPAR, the reviewer comments that the delays in the schedule were due to security issues that were outside of the control of DAI.

ASMED received the following accolades in its final CPAR:

"As the Contracting Officer, I have been very happy with DAI's implementation of ASMED. In fact, DAI was the "gold standard" for how an implementing partner should interact with the cognizant CO and USAID. In fact DAI's requests for CO approval/consent could serve as an example for other USAID implementing partners to follow. Whenever DAI asked me for a decision/opinion/approval/consent, the requests were always well researched and included the correct FAR/AIDAR/ cites. That was much appreciated and assisted me in making determinations more rapidly and easily."

Additionally, the reviewers' overall recommendation for both programs was:

"Given what I know today about the Contractors ability to execute what they promised in their proposal, I definitely would award to them today given I had a choice"

ASMED NFR 2014-1.1 – Insufficient Approvals

- **Grants Extensions** – The two modifications questioned by the auditor were for an extension of the grant period by one month and all modifications encompass the full period of performance. As noted by the auditor, subsequent modifications which cover the full period of performance and include the prior modifications are signed by the grantees. **Additional corroborating evidence provided to the auditor includes relevant extension requests and the purpose for the 2 extensions as well as approvals for all modification extensions from both USAID and the designated ASMED authority.**

As part of our continuous improvement efforts, DAI will review our existing grant modification procedures to determine feasibility for authorizing unilateral extension approvals after ensuring that the requests are responsible, documented and approved. We believe that this solution is reasonable and addresses the control finding noted by the auditor.

- **ODCs** – DAI disagrees with the auditor’s position that because the purchase order was executed after the period of performance that the \$23,214 in costs incurred is unsupported. **The auditor does not challenge that the work was performed or that documentation supporting the payment is complete, rather that the Purchase Order was signed after the services were performed.**

Persuasive evidence supporting the costs incurred and billed includes documented delivery, receipt, acceptance and approval of services which confirms that value was received as established in the fixed price purchase order and scope of work.

Additionally, invoicing and payment ordinarily occur after services are performed and accepted; which can occur after the period of performance. This ensures that the scope, objectives and requirements are met and accepted prior to issuing payment.

DAI will ensure that in the future any special circumstances that occur in the field that cause a delay in authorization of individual pieces of documentation are fully documented with written explanations that will be copied to relevant USAID officials involved.

ASMED NFR 2014- 1.2: Clerical Errors

- **ODCs** – The 2 instances referred by the auditor relate to a transposition error of \$27 by one vendor on their invoice and an error of \$10 in another vendor’s detailed submission of proposed costs. **Given the immateriality of these transactions and since the amounts billed were less than the amounts authorized it would not have been cost effective to take corrective action in the period the amounts were billed.**

We maintain that adequate controls are demonstrated and that no further corrective action is required. In addition during the course of the audit more than 500 transactions were tested at significant cost to the Government and there were no instances of overbillings identified in the audit report.

- **Grants** – DAI disagrees with the auditor’s conclusion that the amount \$4,128 is unsupported because the amount was erroneously shown in the grant agreement as \$0. **Persuasive supporting evidence provided demonstrates that the intent was to provide a grant for the development of the Tirin Kot Market.**

- Documentation supporting the cost includes:
 - The grant application was submitted by Eric Bone, the USAID Field Program Officer and PRT Tirin Kot and shows the contribution amount requested.
 - Approval by USAID for the grant to support the development of the Tirin Kot Market.
 - Transaction Voucher which includes the Grants – Deliverables & Disbursement schedule certified by Eric Bone and verified and approved by the ASMED project staff.
 - The final report detailing the amount and use of the funds was submitted, reviewed and accepted.
 - Pictures of the completed activity and
 - Receipts and/or acknowledgement for the use of these funds.

The above confirms the intended award and completion of the intended activity. **The objectives were achieved, accepted, confirmed and approved resulting in derived value as intended under the grant.**

DAI uses the Technical Administrative Management Information System (TAMIS) to manage grant activities including requests for payment. Once the grant was authorized, staff relied on the amount reflected in TAMIS to manage payment requests. For this reason, the \$0 value assigned in the grant agreement was not used to manage payment requests. As part of our review of TAMIS, additional controls will be considered to better reconcile the TAMIS project management system with grant paperwork to preclude a similar re-occurrence.

ASMED NFR 2014-1.3: Unexplained Discrepancies between GL Balances and Grant Closeout and/or Supporting Documentation:

- **Grants** - DAI provided an explanation to the auditor which includes a reconciliation of variances between the actual costs of the total grant expenses recorded in the general ledger compared with the amount reported in the grant closeout documentation.

DAI acknowledges that five grant closeout reports were not updated correctly but this oversight had **no cost impact because all differences were reconciled, provided to the auditor and demonstrated that the amount billed was correctly reflected.**

The differences resulted from:

- The exchange rate applied in preparing the payment request differed from the actual exchange rate received at the time of payment. The actual exchange rate received was billed.
- Instances where the tax withholding amount deducted from the grant payment was not classified to the grant in the GL but included in the closeout report. The tax amount withheld was paid to the tax authority and so there is no resulting cost impact.
- In one instance a grant activity which covered multiple regions reflected grant costs of only one region in the closeout report. There was no resulting cost impact associated with this.
- In one instance where multiple activities were awarded to one vendor certain billed costs were adjusted. This adjustment impacted the amount reported on the grant closeout report but there were no resulting cost impacts associated with this adjustment.

DAI has recorded an adjustment to the GL for the four individual grants tested and has thus eliminated the discrepancy. The closeout report, however, accurately reflected the total costs for these grants and now reconciles to the GL.

For the remaining grant, an advance was issued to project staff to purchase the in-kind materials that were approved and authorized under the grant. The advance liquidation submitted by the staff are fully supported however the related costs were not uploaded into the Technical Administrative Management Information System (TAMIS) and so were not included in the closeout report. There are no cost implications resulting from this.

DAI is reviewing the processes for close-out using TAMIS and reconciliation to the general ledger to prevent such differences from occurring in the future.

- **Payroll:** DAI concedes the amount questioned by the auditor in the amount of \$2. The amount questioned is immaterial by all accounting and auditing standards and this difference relates to exchange rate variances. Further pursuit would significantly exceed the amount questioned.

DAI recognizes that rounding differences due to exchange rate applications may result in small variances. In accordance with DAI policies, **costs are billed to the Government at the realized exchange rate.** We do not agree that this results in a weakness in control and so no further corrective action is required.

- The ODCs relates to a payroll payment to a local national staff for which the timesheet could not be located. This is detailed under our response for Finding ASMED 2014-2.4 Miscellaneous.

ASMED NFR 2014-1.4: Improper Review Procedures of Grants

- DAI supported the grant coding structure which identified that grants with prefix 001 reflected awards to Associations and 004 awards to NGOs. In this case the grantee was both an NGO and an Association. As payment requests were executed, there was a realization of this. **Grant 001-019 and 004-019 are the same grant.** There is no duplication of cost, rather the grant agreement was executed using Grant Number 001-019 and payments were issued using Grant Number 004-019.

DAI is reviewing TAMIS to determine how to set up an effective way to consolidate grant agreement numbers to prevent similar instances in the future. DAI does not believe that this is a material weakness.

- The period of performance for the grant shows a completion date of October 10, 2010. The grant agreement was signed on May 17, 2010. The transaction sampled by the auditor includes a fully approved Request for Payment which also shows the completion date as October 10, 2010. The activities and related transactions occurred between the signature date of May 17, 2010 and the completion date of October 10, 2010.

We therefore maintain that the period of performance is indicated in the grant agreement and on the additional documentation provided. We believe this demonstrates that adequate controls are in place and that further corrective actions are not required.

ASMED NFR 2014-1.5: Untimely Payments

- The transaction referred is a grant activity for which payment was issued 3 months after the complete documentation was received. Evidence provided to the auditor shows that DAI issued the final payment once complete documentation was received from the grantee. DAI's requests for documentation are supported with e-mail exchanges requesting additional information and documentation. Once the additional information was provided, payment was issued.

DAI maintains that effective and appropriate controls are demonstrated and that no corrective actions are required.

- The next transaction referred to is a Global Development Alliance (GDA) agreement where an extension was retroactively requested by DAI and received from USAID. Once approval was received from USAID an extension was fully executed. All deliverables established in the GDA were fully supported and documented. **The auditor does not challenge that the project was completed or the viability of the documentation and approval, rather the timing of executing the modification.**

DAI is currently reviewing the TAMIS processes and will enhance controls which automate timely notifications when an award end-date is approaching to assure required modifications are executed timely.

DAI has complied with and is committed to maintaining effective and efficient controls as detailed by the auditor with reference to the GAO, FAR and CFR citations. With exception of the questioned costs, **the auditor acknowledges that DAI provided additional or other relevant documentation to sufficiently support the costs billed as well as their reasonability. This demonstrates that effective controls are in place.**

Specifically:

DAI strives to achieve timely, accurate and effective review, recording and sound management practices and processes in accordance with all Governmental regulations.

FAR Subpart 52.2 (b)(1)(ii)(A)(1) and (2) specify that payments to subcontractors will be made if in accordance with the terms and conditions of a subcontract or invoice and ordinarily within 30 days of submission. DAI applies the same standard for issuing payment. Payment and resulting invoicing to the client is delayed when costs claimed do not comply with the terms of the agreement whether inadequately supported or otherwise not acceptable as required. These are the same standards that the US Government applies in processing their payments to contractors. Determining payment due dates, FAR 32-904 (b)(1)(i) and (ii) establishes the payment standards as (1) The later of the following two events:

- (i) The 30th day after the designated billing office receives **a proper invoice** from the contractor (except as provided in paragraph (b)(3) of this section).
- (ii) The 30th day **after Government acceptance** of supplies delivered or services performed.

DAI complies with FAR, Subpart 31.2, Costs with Commercial Organizations, Section 31.201-2, “Determining Allowability”.

CFR Section 226.53, “Retention and Access Requirements for Records” – While this particular section relates to recipients, where DAI is a contractor, DAI retains and maintains documents appropriately.

Similarly, CFR, Section 226.71, “Close-out Procedures” are intended specifically for/to Recipients where DAI is a contractor. The terms of the contract dictate the completion, performance and reporting requirements for submission to USAID. DAI has complied with these requirements.

The auditor expresses concerns with potential effects where the Final Monitoring Report (FMR) and/or GL was not fully updated. DAI challenges that in each instance the reconciliations between the GL and FMR were completed and showed only immaterial differences primarily resulting from the applied exchange rate compared with the actual exchange rate realized and billed. None of the discrepancies discussed showed any detection of material misstatements.

DAI believes that if reasonable and appropriate materiality limits had been applied during the audit process, a number of the reported findings including these would not have been included in the report.

As a best practice, DAI continually reviews our systems and processes for purposes of strengthening our internal controls. DAI is reviewing TAMIS and our processes to identify areas for improvements and enhancements.

Recommendation #1:

DAI has started a comprehensive review of our TAMIS system and related processes to refine systematic requirements which will ensure that proper reconciliations, reviews and approvals are performed and adequately documented prospectively for all grants and procurements.

Recommendation #2:

As reflected under Findings ASMED NFR 2014-1.1 and 1.2, DAI asserts that the costs incurred are adequately supported and demonstrate that value was achieved. DAI disagrees that the questioned costs are unsupported. The reconciliations have been provided demonstrating that the actual costs incurred were billed and are adequately supported. The findings question the timing of the final completion of a Purchase Order, not that the Purchase Order was not prepared and fully executed. Similarly, while the final value was not reflected in the Grant Agreement, the value awarded and billed to the Government is fully documented and fully supported.

ASMED NFR 2014-2.1 – Competitive Bidding Documentation

- **Allowances** - The purpose of bidding documentation is to demonstrate price reasonableness. **As noted by the auditor, sufficient bidding documentation was provided for both instances to support the reasonableness of the costs incurred and billed.** This documentation was provided during the audit field work along with supporting documentation for over 500 other transactions and as such DAI disagrees that there was a long delay in producing the information.
- **ODCs** – As indicated by the auditor, other relevant documentation was provided for both instances which demonstrate and support the reasonability of the costs billed.

DAI is in the process of reviewing the TAMIS system to automate enhanced controls assuring that competitive bidding documentation is incorporated and readily available.

- **Grants** – The audit report questions \$414,921 related to a difference in the interpretation of requirements per the contract related to the process for grant selection. **These costs represent 91% of the total costs questioned and DAI disagrees with these findings as all Grants were made in accordance with DAI Grants Manual and were individually approved by USAID prior to award.**

The methodology of the ASMED program was to strategically identify partners and grant recipients that fit the goals and objectives of the program and met the key sectors that the project identified as focus areas, in collaboration with the designated USAID Cognizant Technical Officer (CTO). Excerpts from the DAI Grants Manual (as approved by USAID) used by project management to implement grants and relevant excerpts from the Contract are included below:

- Section E of the DAI Grants Manuals indicates that, “...**DAI will use its best efforts to foster competition for grant funds, but it is anticipated that many ASMED grants will not be awarded competitively as the grantees will have been identified by the USAID Field Program Officers...**” (FPOs).
- All grant activities were undertaken through a strategic coordination with USAID. Per section H.24, part (c) on page 35 of the ASMED prime contract, “**USAID shall be substantially involved in establishing selection factors** and shall approve the selection of grant recipients. Unless otherwise directed by the Contracting Officer, the CTO shall have authority to approve the grant recipient selection.”

In all instances a grant was awarded to a specific and unique association or industry to achieve targeted objectives. The grants were awarded to:

- Afghan Carpet Export Guild
- Afghan Bankers Association
- Representative of the District of Saigen
- Saqeb PRP Pipe Production Factory

- Samsoor Gypsum Production Factory
- Afghan Shoe Making Company

In each instance grant documentation includes all required and relevant supporting documentation:

- Signed grant application
- Grant Evaluation
- USAID approval
- Fully executed Grant Award
- Evaluation and Demonstrated Delivery and Acceptance
- Receipts
- All other Approvals

The approval by USAID concluded a structured process that lead to the award of these grants. The documentation supports the allowability of the costs and value received. **The auditor does not challenge the veracity of the documentation supporting these grants or that the awarded objectives were achieved; rather that competitive bidding was not fully documented.** The award of these grants is reasonable, given the objectives of the contract and the recognition that competition was not appropriate given the mitigating circumstances described above.

DAI complied with the established contract terms, approved grants manual and all other relevant compliance, controls, procedures and documentation requirements. We therefore conclude that the grants were awarded for strategic purposes within the confines of the contract and that the related costs are reasonable, allowable and allocable.

We believe that the auditor's conclusion that grant competition is required is incorrect given the representations in the contract and the USAID approved grants manual. The questioned Grants were properly approved and documented. DAI disagrees with the auditor's conclusion to question these grants in the amount of \$414,921 based on the notion that the grants themselves were not competed.

ASMED 2014-2.2 Purchase Orders, Receiving Reports, and Invoices ODCs

DAI concedes that 3 of 15 UPS units purchased for about \$300 each could not be accounted for. These items however were purchased through the home office with involvement of multiple staff.

DAI is reviewing processes for procurements conducted by the home office and transfer/assignment to the field. Additional controls demonstrating transfer and receipt will be enhanced to ensure future procurements are tracked and documented through delivery/receipt.

ASMED 2014-2.3 Alliance Final Report

- **The auditor acknowledges that additional documentation, including quarterly and annual reports were provided to support adequate closure of the alliance agreements for the 3 instances noted.** Because of the extensive corroborating documentation provided that shows the nature of the transaction and the allocability and allowability of the costs DAI is not certain why this was included in the audit report.
- DAI acknowledges that one transaction was inadvertently classified under the subcontracts line in the general ledger. This has been addressed and resolved and **did not result in a billing adjustment.**

DAI is in the process of reviewing our TAMIS system and refining the process for reviewing costs reflected in TAMIS compared with classification of cost in the general ledger. This will ensure mitigation of similar errors in the future.

ASMED 2014-2.4 Miscellaneous

- DAI agrees that we were unable to locate one timesheet out of the 137 labor and fringe related transactions selected. It is important to note that all other information related to this \$1,336 transaction including payment calculations, pay-sheet, approvals and the payment support were provided to the auditors that showed that these costs were allowable.

DAI believes that the document was erroneously separated and misfiled at the time the project close-out occurred and so concludes that this is not an inherent or pervasive control issue.

The auditor acknowledges with each finding that additional supporting documentation was provided and so we do not agree that the documentation was unavailable or did not exist.

DAI project records are maintained in hard copy prior to 2013. In the fall of 2013 DAI identified and implemented an electronic document archiving system, into which field financial transactions are scanned and stored. This system was used during the audit and so the auditor has firsthand experience with this electronic archiving system. Procurement and grant information is already permanently maintained in TAMIS. As noted under the findings, DAI continues to improve TAMIS with the intent to enhance its capabilities and related controls.

DAI has complied with and is committed to maintaining effective and efficient procurement processes and controls as detailed by the auditor with reference to FAR and CFR citations and DAI's guidelines. With exception of the questioned costs, the auditor acknowledges that DAI provided additional or other relevant documentation to sufficiently support the costs billed as well as their reasonability. This demonstrates that effective controls are in place.

Specifically:

As relates to FAR, Subpart 13.0, Simplified Acquisition Procedures, Section 13.003, Subpart 13.1, Procedures, Section 13.104 "Promoting Competition" and DAI's Field Procurement Guide, the auditor acknowledges in each instance that price reasonableness was documented. The purpose of the FAR clauses and DAI's guidelines are to ensure that price reasonability is demonstrated and documented. We therefore believe that DAI has complied with these references.

As relates to CFR, Section 226.53, "Retention and Access Requirements" and DAI ASMED GDA Policies and Procedures, the auditor confirms receipt of additional supporting documentation for all instances with the exception of the items for which costs are questioned. As such, DAI believes that we have complied with these requirements.

We believe we have responded to the potential effects noted by the auditor. As a best practice, DAI periodically reviews our systems and processes for purposes of enhancement to processes and controls. Recognizing that there is risk to loss of records we have implemented an electronic document archiving system which is now available for all projects to upload scans of financial records. We believe this demonstrates our commitment to compliance with record retention and controls over our records.

As supporting documentation provided to the auditors demonstrates, the risk to incurring greater than fair market value is very low. In no instance did the auditor challenge completion of work performed. Lastly, we believe that all relevant documentation is on file and were provided to the auditor in support of costs claimed.

Recommendation #3:

DAI asserts that the necessary supporting documentation was provided supporting the award of the grants made. USAID approval confirms the decision to award the grants; all related transactional documents support the reasonability of the cost and lastly all required deliverables under the grant award were achieved and approved. We therefore maintain that the \$417,042 is fully and adequately awarded and supported, that the costs are reasonable, allowable and allocable and that the intended value was achieved.

Recommendation #4:

DAI believes that adequate procedures and documentation has been maintained and was readily made available to support the costs incurred.

As a best practice, DAI continually reviews our systems for purposes of enhancement to processes and controls. Recognizing that there is risk to loss of records we have implemented an electronic document archiving system which is now used by most projects to upload scans of all financial records. We believe this demonstrates our commitment to compliance with record retention and controls over our records.

Demonstrating our commitment to continued improvement, DAI has strengthened our field procurement processes. Training by subject matter experts in the home office who support Business Process Management, Internal Audit and Contracts have already delivered the revised Field Procurement Training in Afghanistan, Middle East and Africa. Additional training has been planned for the remainder of 2014 in the Home Office and field locations.

Mandatory ethics training and testing is also a requirement for employment. In addition minimum proficiency standards have been added for certain project management positions with a greater focus on project financial management.

DAI believes that the above demonstrate the commitment to ensuring effective, appropriate and efficient enhancements to established controls and compliance recommendations.

ASI NFR 2014-1.1 – Unexplained Discrepancies between the Final Monitoring Reports and General Ledger Balances

- **Grants** – All instances where a discrepancy was identified between the Final Monitoring Report (FMR) and the General Ledger was fully reconciled and the reconciliation provided to the auditor during fieldwork.
 - Based on the complete reconciliations, the FMR for the six grants for which seven transactions were sampled, was updated in TAMIS and evidence provided to the auditor demonstrating that the amounts in the updated FMR agreed with the general ledger.

This update did not result in an adjustment to amounts previously billed and the updated amount is now reported in the FMR.

- In one instance, the required local tax was withheld from a disbursement to the grantee. The total amount of the disbursement was correctly recorded in TAMIS, however, the tax that was withheld was not coded to the grant number in the general ledger. DAI supported to the auditors during fieldwork that the amount withheld was paid timely and correctly to the local authorities.

The amount billed is correct as is the amount reported.

- The transactions which were coded to the incorrect grant number in the GL have been corrected.

The amount billed is correct as is the amount reported.

The auditor confirms that, "...the conditions stated above did not result in questioned costs as the GL balances were materially accurate and the documentation provided by DAI sufficiently supported the reasonableness and amounts of the transactions tested." DAI therefore concludes that adequate controls exist to identify related errors and prevent material reporting misstatements.

ASI NFR 2014-1.1 – Clerical Errors

- **Allowances** – The auditor refers to two transactions which resulted in an under-billing of \$27. In the first instance an error in the termination date was made resulting in an under-billing of \$45. In the second instance there was a transposition error of \$18.

The net amount of these two errors resulted in an under-billing to USAID and by all accounting and auditing standards is immaterial. As corroborated by the extensive transaction testing that was done as part of this audit, DAI does not feel that this is indicative of an internal control weakness.

- **Excess Annual Leave Payout to Employee** – DAI agrees that an error was made in calculating the liquidation of unused leave in the amount of \$2,411 in excess of that authorized by USAID. This amount has been credited to USAID.

DAI is reviewing the Field Operations Manual template to ensure that the number of days approved are reconciled prior to releasing payment. DAI is also working with field project management to ensure that staff use earned leave in a timely manner that does not impede project activity so as not to maintain large accrue unused leave balances. We believe this will mitigate similar future risks.

- **Subcontractor Invoice Calculation Error** – The subcontractor submitted a certified invoice where a formulaic error resulted in an under-billing for allowances. The amount claimed was within the amount approved for allowances and so the amount invoiced was approved for payment.

As discussed with the auditor, **DAI's control environment is focused on catching and preventing overpayments.** We therefore disagree that not catching the amount under-billed is indicative of an inadequate control environment **as no instances of over-billings were identified in any of the other 366 transactions sampled.**

ASI NFR 2014-1.3 – Untimely Payment

The two ODC transactions relate to two security service invoices. The subcontractor is required to provide supporting documentation for all claimed costs. One of the two invoices included supporting documentation in excess of 300 documents. The second invoice includes a Short-Payment Form detailing required invoice adjustments. In each instance documentation includes:

- Timesheets – verification that days billed agrees with signed and approved timesheets.
- Verification that payments have been made to staff.
- Verification of billed labor categories which requires review of contracted billing rates compared with qualifications of each individual. Categories include management, guards, drivers and operations staff.
- Receipts for other costs claimed which include travel and allowances, life support, communications costs, equipment, visas and numerous other miscellaneous costs authorized under the subcontract.

Prior to issuing payment, DAI requires that any/all irregularities and/or missing documentation are researched, dialogued with the subcontractor and resolved. These are **similar standards to those applied by the US Government prior to acceptance and payment**. The terms of the subcontract dictate review, acceptance and approval along with detailed invoicing requirements for payment.

In order to ensure that subcontractor invoices are in compliance with all relevant DAI and US Government standards it is DAI's policy to not remit subcontractor payments until documentation is on file, reviewed and approved. The delay cited by the auditor ensured that the relevant documentation was obtained in support of the costs that were billed. This process, while lengthy, resulted as affirmed by the auditor, that no questioned costs resulted.

DAI asserts that the internal review control procedures are effective and support the reasonability, allowability and allocability of the costs billed.

DAI has complied with and is committed to maintaining effective and efficient procurement processes and controls as detailed by the auditor with reference to FAR and CFR citations and DAI's guidelines. With exception of the questioned costs, the auditor acknowledges that DAI provided additional or other relevant documentation to sufficiently support the costs billed as well as their reasonability. This further confirms that effective controls are in place.

Specifically:

As relates to CFR, Section 226.53, "Retention and Access Requirements" and DAI Policies and Procedures, the auditor confirms receipt of additional supporting documentation for all

instances with the exception of the items for which costs are questioned. As such, DAI believes that we have complied with these requirements.

CFR, Section 226.71, “Close-out Procedures” as referenced by the auditor discusses recipient reporting requirements. DAI is a contractor and the reporting requirements are dictated and detailed in the contract. **DAI complied with all established contract reporting requirements.**

DAI asserts that it met all of the requirements per FAR 31.2, Costs with Commercial Organizations, Section 31.201-2 “Determining Allowability”. DAI has demonstrated our responsibility for accounting for costs appropriately and we have maintained records, including supporting documentation, adequately to demonstrate that costs claimed have been incurred, are allocable to the contract and comply with applicable cost principles. The auditor has acknowledged in all instances where no costs were questioned that adequate information supported the cost reasonability.

FAR 52.232-25 establishes that prompt payment is contingent as follows:

(a) Invoice payments—(1) Due date.(i) Except as indicated in paragraphs (a)(2) and (c) of this clause, the due date for making invoice payments by the designated payment office is **the later of the following two events:**

(A) The **30th day after the designated billing office receives a proper invoice** from the Contractor (except as provided in paragraph (a)(1)(ii) of this clause).

(B) The 30th day after **Government acceptance of supplies delivered or services performed.**

Similarly, Determining payment due dates, FAR 32-904 (b)(1)(i) and (ii) establishes the payment standards as (1) The later of the following two events:

- (i) The 30th day after the designated billing office receives **a proper invoice** from the contractor (except as provided in paragraph (b)(3) of this section).
- (ii) The 30th day **after Government acceptance** of supplies delivered or services performed.

The above is consistent with FAR Subpart 52.216-7 and the GAO Standards for Internal Control in the Federal Government. As such, DAI maintains that similar and appropriate standards are applied to all claims and invoices prior to issuing payment.

The auditor opines that the FMR and/or GL could be incomplete, yet acknowledges that the reconciliation prepared and provided did not result in material misstatements.

As supporting documentation provided to the auditors demonstrates, the risk to incurring greater than fair market value is very low. In no instance did the auditor challenge completion of work performed. Lastly, we believe that all relevant documentation is on file and was provided to the auditor in support of costs claimed.

Recommendation #5

In response to the recommendation to improve procedures to ensure that the FMR is properly prepared and reconciled to the GL, DAI has started a comprehensive review of our TAMIS system and related processes to refine systematic requirements which will ensure that proper reconciliations, reviews and approvals are performed and adequately documented prospectively for all grants and procurements.

The auditor also advises that DAI identify and correct clerical errors, including erroneous payments to vendors and personnel during the review process and prevent untimely payments to vendors. DAI is continually working to refine the Field Operations Manual and working with our field staff to ensure that unused accrued leave is used more timely in a manner to not impede project activities. As relates to the untimely payments referred to by the auditor, DAI asserts that the review process ensured that costs claimed by the subcontractor were adequately documented as required prior to issuing payment. This assures that the amount billed is correct and supported.

Recommendation #6

DAI is reviewing the Field Operations Manual template and working with our field management teams to ensure that unused accrued leave is used timely to reduce instances where large leave payouts are requested when employees are terminated.

Recommendation #7

DAI disagrees with the auditor that the payments reflected were untimely. **DAI ensures that all terms, conditions and invoicing requirements are achieved prior to issuance of payment to vendors and subcontractors.** We believe that this is a best practice as it ensures that appropriate and compliant documentation is received, reviewed and confirmed. This reduces the possibility of inappropriate or incomplete documentation in support of amounts billed under the contract.

Recommendation #8

DAI believes that the recommendation indicates recovery of a \$27 credit from USAID; whereas the intent is to recommend a recovery of leave paid out in excess of USAID approval in the amount of \$2,411. As acknowledged under the particular finding reference, ASI NFR 2014-1.1, DAI has already credited \$2,411 to the USAID contract.

DAI waives the recovery of the net \$27 credit. The amount invoiced to ASI was less and so the resulting short-payment will not be pursued further.

ASI NFR 2014-2 – Insufficient Documentation for Bidding Procedures for shipping of freight into Afghanistan.

- **Allowances** – DAI’s home office procurement reviewed the transaction sampled and provided information supporting that:
 - There was a **limited number of qualified freight forwarding companies who provide shipping services between Afghanistan and Tbilisi, Georgia.**
 - MEBS was selected based on their ability and experience operating in Afghanistan.
 - MEBS owned their own warehouse to secure the shipment and had **familiarity with security concerns and complex customs clearance processes.**
 - MEBS was **one of the US Government (USAID, Embassy and DOD) preferred vendors.**

The auditor refers to FAR 13.104 which discussed promoting competition to the maximum extent practicable. DAI maintains that it complied with this requirement and that full competition was not possible and so not practicable.

We therefore believe that the costs billed are allowable, allocable and reasonable and no further action is required.

- **ODCs** – The auditor challenges that competition was not conducted for ASI’s mobile phone services provider, Roshan. In fact, Roshan was one of the larger and more reliable communications providers in Afghanistan whose service coverage was unimpeded in East Afghanistan which is where ASI operated. ASI’s security provider, Edinburgh International (EI), used Roshan as their mobile services provider. Using **Roshan ensured that ASI and EI staff could readily and consistently communicate as needed. Given the volatility of the security situation this was critical to both staff safety and project operations.**

DAI therefore maintains that the costs billed, \$7,846 are allowable, reasonable and allocable.

DAI maintains that documentation was provided to support costs billed and that these are reasonable, allowable and allocable.

In the first instance DAI provided information to the auditor demonstrating the reason for using MEBS to conduct the shipment of personal affects. In the second instance, Roshan was the only responsible option for mobile telephone services in eastern Afghanistan.

DAI complies with the criteria established in FAR 13.0, Simplified Acquisition Procedures, FAR 13.104, Promoting Competition and DAI's Field Procurement Guide.

DAI also complies with FAR 31.201-2 and assures our responsibility for accounting for costs appropriately and for maintaining records, including supporting documentation, adequately demonstrating that costs claimed have been incurred, are allocable to the contract and compliance with applicable cost principles.

In both instances DAI provided information detailing the basis for assigning the awards to MEBS and Roshan, that the costs are at fair market value and that the Government received the best value for procured goods/services.

Recommendation #9:

DAI believes that we have demonstrated appropriate support for the related procurements and so disagrees with the total amount questioned \$11,524.

Management Response to APPENDIX A – PRIOR AUDIT FINDINGS AND STATUS -
Financial Audit of Costs Incurred by DAI for ASMED (USAID Office of Inspector General
Audit Report No. F-306-12-002-N)

The auditor reflects that a previously reported finding in the above report questioned \$88,000 Alliance related activity costs as ineligible. DAI **provided our response and supporting evidence to the Contracting Officer**, Mr. Charles Pope on October 28, 2011 detailing our disagreement with the conclusion that the costs were ineligible.

A copy DAI's response is attached.¹

¹ A copy of this memo from DAI to the contracting officer has been included in the report on the following pages.

DAI Washington

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Suite 200
Bethesda, Maryland
20814 USA

Tel: 301 771 7500
Fax: 301 771 7777
www.dai.com



October 28, 2011

Mr. Charles Pope
Contracting Officer
US Agency for International Development
Great Masood Road
Kabul, Afghanistan

Subject: Response to the Report on Financial Audit of Local Costs Incurred by DAI under Contract No. 306-C-00-07-00503-00, Afghanistan Small and Medium Enterprise Development (ASMED) Project for the period October 1, 2009 to September 30, 2010 referenced in Report No. F-306-12-002-N

Dear Mr. Pope:

Please accept this letter along with all supporting documentation as ASMED's response to the auditors' recommendation concerning The Global Development Alliance (GDA) No. 102.9 "One Laptop Per Child" (OLPC) from the audit report referenced above. The auditors concluded that the GDA in question was inconsistent with the general objectives of the ASMED project based on the objectives of the ASMED contract from 2006 and thus considered "unallowable" the amount of USD 88,650. DAI very much considers the GDA No. 102.9 as having been performed within the general scope of work of the contract, consistent with USAID's express wishes and approvals and the approved work plan for Year 2. These costs were incurred in performance of the ASMED program and in furtherance of USAID's objectives in Afghanistan. We include as attachments to this letter documents from the COTR and also the work plan which show that Base of the Pyramid (BOP) GDA component was approved and included as part of the ASMED program objectives. Due to the period of review in question, the auditors would not have seen these documents as they appear in our files prior to the timeframe of audit; however, all approvals concerning this GDA are attached for your review.

Specifically, from Year Two onward ASMED's BOP Assessment identified opportunities for the project to introduce innovation, create opportunities, and to generate economic empowerment to the poorest levels of Afghanistan's economy. As excerpted from ASMED's Year 2 Work Plan, "*Sectors such as food and agriculture, housing, water and sanitation, health, finance, and telecom/IT hold specific opportunities for impact and a high number of implementing partners. The first two major projects for the BOP initiatives were with Roshan, the major telephone provider in the country and with a service to transfer funds and purchase goods and services digitally. ASMED plans to address some of these sectors within our GDA component as well as within other aspects of the project. However, with sufficient resources, the project can also drive meaningful development in sectors outside of our scope but relevant in terms of infrastructure development and value chain strengthening.*"

The OLPC GDA did exactly this by providing internet access and usage in urban and rural Afghanistan, which had been banned under the Taliban. Internet access provided under this GDA was intended to be a significant enabler of SME creation and developer



of vocational work force skills. The laptops provided to schoolchildren were loaded with adult business education and market information software for use by family members of the schoolchildren, in addition to software that taught basic hygiene and sanitation in the home and "start your business" tools. Perhaps the greatest contribution of the OLPC GDA was developing a successful tool proven in the Afghan environment for delivering interactive education in the home that can help Afghan youth with very limited access to formal schooling achieve literacy and numeracy, both crucial to economic empowerment and to preparing youth for job opportunities. Greater detail is provided in the attached Concept Note. Other documents attached include approvals and work plan for Year Two.

Please let me know if you have any questions or require further documentation concerning this GDA.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jennifer A. Mascardo".

Jennifer A. Mascardo
Contracts Manager

Cc: Farid Ahmad Barkzai, COTR
Robbin Burkhat, OFM/Contoller
Hugh Haworth, OEG/Director

APPENDIX C – AUDITOR’S EVALUATION OF DEVELOPMENT ALTERNATIVES, INC. RESPONSE TO AUDIT REPORT

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this document) appreciates the thorough and thoughtful responses to the audit report provided by Development Alternatives, Inc.’s (DAI) management. DAI disagreed with the majority of the issues presented and agreed with a limited number of the issues presented. Kearney presents a complete rebuttal to the full response from DAI’s management below.

1. We disagree with DAI’s position that the audit report is not supported by the results of audit testing. This engagement encompassed audit procedures over the Special Purpose Financial Statements (SPFS), internal controls, compliance with relevant laws and regulations, and results of DAI’s corrective actions to previous audit findings. Kearney issued an opinion on the SPFS and noted two material weaknesses as a result of pervasive control findings documented while executing testing procedures, some of which resulted in questioned costs, while others did not result in questioned costs. These findings are supported by our working papers.

As these SPFS are classified as “special purpose,” the SPFS structure is designed to communicate very specific information to the readers. The content of these SPFS includes management’s contract costs incurred and fees applied for two contracts, followed by the reporting of questioned costs as a result of applied audit procedures. Questioned costs are reported, in conjunction with control and compliance findings, in order to alert the users of this report, which are limited to DAI, the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), and the United States Agency for International Development (USAID), to specific instances in which questioned costs exist. The SPFS requirements were designed to support the identification and communication of questioned costs, whether unsupported or ineligible, and are intended to assist USAID’s Contracting Officer in the execution of his/her duties in compliance with Federal Acquisition Regulation (FAR) Subpart 1.6, *Career Development, Contracting Authority, and Responsibilities*. The SPFS requirements are also intended to support SIGAR in its duties in accordance with Section 1229 of the National Defense Authorization Act for Fiscal Year 2008. Ultimately, in accordance with FAR 1.602-2, *Responsibilities*:

“Contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships... (c) Request and consider the advice of specialists in audit, law, engineering, information security, transportation, and other fields, as appropriate.”

As part of FAR Subpart 1.602-2, it is the Contracting Officer’s responsibility to make a final determination as to allowability of a cost, but may consider the audit results when doing so. It is Kearney’s responsibility to conduct this SPFS audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the requirements of the SPFS, which includes reporting questioned costs. When considering the instances of control and compliance findings, including those with related questioned costs, we have sufficient audit evidence in support of our conclusions related to our audit opinion and supporting Schedule of Findings.

-
- a. DAI comments that Kearney "...reported these costs as unsupported based on their interpretation of documentation requirements for the competitive bidding of these respective grants." The explicit discussion "that many of the grants will not be awarded competitively" does not negate DAI's responsibility to fully document efforts at either competitively awarding the grant or justifying sole source awards in accordance with FAR Subpart 13.0, *Simplified Acquisition Procedures*, Section 13.003, "Policy"; and FAR Subpart 13.1, *Procedures*, Section 13.104, "Promoting Competition." Sufficient supporting documentation related to a justified sole source or competitively awarded grant, in the reported instances, was not provided by DAI. Therefore, Kearney is reporting these instances and costs in order to alert the reader to DAI's interpretation of the Grant Manual, which may have resulted in grant awards that do not comply with the competition requirements as stated in the Automated Directives System (ADS), Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations," Section 303.3.6.1, "Competition Requirements":

"In accordance with the Federal Grant and Cooperative Agreement Act, USAID encourages competition in the award of grants and cooperative agreements so that it may identify and fund the best projects to achieve program objectives. Unless USAID authorizes an exception in accordance with 303.3.6.5, USAID must award all grants and cooperative agreements competitively. Competition requires that the Agency publish an announcement in accordance with 303.3.5, seek applications from all eligible and qualified entities, conduct an impartial review and evaluation of all applications (see 303.3.6.4), and make an objective recommendation to the AO for award."

- b. Kearney did not stipulate that pervasive documentation does not exist, as noted by DAI. DAI's comment inaccurately focuses on the dollar value of the questioned costs as the only source for the conclusions documented in this report. The results of our testing identified questioned costs, instances of control failures, and instances of noncompliance, that when considered individually and in the aggregate, resulted in the audit conclusions reported. As discussed in the paragraph preceding Table 3, and to further clarify, the quantitative and qualitative aspects of the findings, and the significance of the statement balances to which these findings correspond, resulted in Kearney's conclusion that two material weaknesses exist. These material weaknesses are described in the Schedule of Findings and Responses for the two contracts subject to audit in this report.

DAI stated several times that they do not believe that some of the individual findings rise to the result of a material weakness. Determination of materiality was completed in accordance with AU 312, *Audit Risk and Materiality in Conducting an Audit*. The materiality limits were reasonable and appropriate for issuance of the opinion. Kearney followed all necessary terms and conditions in execution of this audit. When each finding and the root cause of each finding are considered, inclusion of the issues is considered appropriate and reasonable.

2. The Independent Auditor's Report was issued in accordance *Government Auditing Standards* and included the concept of materiality in the issuance of the opinion. AU 312, *Audit Risk and Materiality in Conducting an Audit*, Section, "Users," paragraph .05, states:

"In an audit of financial statements, the auditor's judgment as to matters that are material to users of the financial statements is based on consideration of the needs of users as a group; the auditor does not consider the possible effect of misstatements on specific individual users, whose needs may vary widely."

With regard to the SPFS, materiality was developed in coordination with the statement users to support their needs.

3. Kearney commends DAI for having a continuous focus on internal controls and compliance, and hopes that DAI considers the recommendations presented to be helpful in its process and control improvement efforts.
4. Kearney was contracted to issue an opinion on the SPFS for Contract Number 306-C-00-07-00503-00, Afghanistan Small and Medium-Sized Enterprise Development for the period of October 26, 2006 through October 31, 2011 (herein referred to as the ASMED contract); and for Contract Number 306-DOT-I-02-08-00035-00, Afghanistan Stabilization Initiative for the period of November 1, 2011 through September 25, 2012 (herein referred to as the ASI contract). Kearney did not perform an assessment of the performance or value of the costs incurred. DAI's responses are not relevant, as value, effectiveness, and success of the ASMED and ASI programs are not the subject of this engagement. The SPFS were designed to result in a report that provides the user with information on whether a set of statements are materially accurate and whether, in execution of the audit procedures, instances of lack of controls and compliance were noted.

Below, Kearney has provided our responses to DAI's management's individual responses to the findings noted in the Schedule of Findings and Responses.

ASMED NFR 2014-1.1 – Insufficient Approvals

In regard to the grants extensions, DAI does not dispute the condition, and as such, the finding stands as issued. However, DAI should reconsider the corrective action of unilateral modifications, as the grantee may not understand and/or concur with a modification. Specifically for grants or other legally binding agreements, bilateral modifications serve as formal notification to the grantee of a modification and their understanding and agreement of the modification, as evidenced via signature or fingerprint of the recipient or an officer of the receiving organization.

In regard to the ODCs, DAI does not dispute that the PO was executed after the period of performance. The PO was executed on June 23, 2008, and the period of performance was December 1, 2007 through May 31, 2008. Work should not be initiated until an agreement or

PO is finalized because the executed agreement or PO is the legal instrument that controls the actions to be taken by both parties. The finding stands as issued.

ASMED NFR 2014- 1.2 – Clerical Errors

In regard to the ODCs, DAI does not dispute that there were errors in the payment amount. The finding stands as issued. DAI should consider accuracy when payments are being made (not only whether overpayments were made) to foster good will with their vendors. Further, internal controls should be designed and executed in a manner to prevent and detect errors in a timely manner.

In regard to the grants, DAI does not dispute that the amount recorded in the grant agreement was \$0. The finding stands as issued because the dually executed grant agreement is the legal instrument that controls the actions to be taken by both parties.

ASMED NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout and/or Supporting Documentation

In regard to payroll, DAI indicated that the differences identified in the finding related to exchange rate variances; however, for the items in question, all necessary information to confirm an exchange rate variance was not provided. Thus, the root cause of the problem was unable to be confirmed as relating to an exchange rate variance. DAI conducts a significant portion of payments in foreign currency and should be able to readily identify and support all variances caused by exchange rate variances; without this, there is the potential that a the actual transaction in question may not be able to be fully supported. The finding stands as issued.

ASMED NFR 2014-1.4 – Improper Review Procedures of Grants

In regard to the period of performance, DAI indicates that the period of performance is implied through the date of the signatures and the completion date; however, the signatures on the grant agreement do not include a date. Further, if a date was included, it may not necessarily be indicative of the grant start date. The finding stands as issued.

ASMED NFR 2014-1.5 – Timing Issues

In regard to the grant activity, DAI indicates that e-mail traffic to support that follow-up was ongoing to ensure payment was proper; however, documentation was not provided to support this statement. Further, DAI indicates in their response that three months passed between the time complete documentation was received and payment to the vendor made; this statement continues to indicate that payment was not made timely. The finding stands as issued.

In regard to DAI's general comments following this NFR:

- In regard to the CFR, Section 226.71, "Close-out Procedures," not applying because DAI is a contractor and not a recipient, according to the ASMED Contract, Section H.24,
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“Grant Under Contract,” “Requirements which apply to USAID-executed grants shall also apply to grants executed by the contractor.” Thus all close-out documentation should be complete and accurate. In order to properly close-out a grant, final reports must be provided and funds must be de-obligated. To accomplish this, an accurate amount of payments made to the grantee will need to be determined

- In regard to the grant close-out documentation and/or GL not being fully updated, DAI completed these reconciliations as a result of auditor inquiry and not based on an adequately designed and/or executed control system. DAI needs to consider the timing of the reconciliations in relation to the end date of the contract under audit, and the impact to DAI and the Government related to the lack of timely completion
- In regard to the materiality limits, please see Appendix C for the auditor’s overall rebuttal to DAI’s Management Response.

In regard to Recommendation #2, Kearney defers to the USAID Contracting Officer for a final determination as to the allowability of the questioned costs.

ASMED NFR 2014-2.1 – Competitive Bidding Documentation

In regard to the allowances, documentation to support the bidding decision provided was a Memo to File, dated February 2014, for transactions that occurred in May and October of 2009. DAI’s recordkeeping and retention practices need to be improved to ensure justifications are documented and maintained prior to incurring expenses, and not four years later as the result of audit inquiry. This is necessary to reduce risk to the contractor and the Government. The finding stands as issued.

In regard to the grants, Kearney understands that grants may not be awarded competitively; however, adequate documentation should be available to support either the lack of competition or the competition. Without this supporting documentation, DAI will be unable to evidence that “its best efforts to foster competition for grant awards” were carried out. Further, although documentation is provided to USAID to obtain approval prior to grant award, USAID may not have all necessary information to make an informed decision without adequate documentation to support competition or lack of competition. Approval by USAID should not be used by DAI as one of their internal controls. While the USAID Contracting Officer will have the ultimate decision in approval of allowability of costs, DAI should ensure that all requirements are independently met; this serves to protect the Government and DAI in case of USAID and/or DAI policy or personnel changes. Award to a “specific and unique association or industry” does not preclude DAI from adequately documenting competition. Per the Automated Directives Systems (ADS) 303.3.6.5, “When Competition Is Not Required:”

“Under certain circumstances, USAID does not require competition as indicated below in a., b., and c. of this paragraph. These situations are different from those in which an exception to competition requirements permits less than full competition, as discussed in 303.3.6.6 below. The required documentation for an assistance action varies depending upon whether competition is required and whether there is an applicable exception that permits less than full competition.

“Competition requirements do not apply and, therefore, no exception to competition or Justification for Exception to Competition (JEC) under ADS 303.3.6.6 is needed for an assistance action otherwise covered by this chapter for:

- a. The issuance of associate awards made under a previously competed Leader with Associate Instrument,
- b. Awards, extensions, or amendments using non-appropriated funds (including, but not limited to, monies or in-kind contributions from bilateral and multilateral development partners, host country governments, foundations and other private sector entities), and
- c. Extensions to existing agreements under 22 CFR 226.25(e)(2).”

ASMED 2014-2.3 – Alliance Final Report

In regard to the Alliance Final Report, the DAI ASMED GDA Policies and Procedures Manual indicates that a final report will be submitted. The finding relates to noncompliance with DAI’s approved Policies and Procedures Manual and a control issue. The final report is vital in providing a description of the results that were accomplished during the GDA. Without this information, it may put additional burden on DAI and the Government to determine that all requirements of the GDA were met. The finding stands as issued.

In regard to DAI’s general comments following this NFR:

- Kearney agrees that for many transactions, additional documentation was provided to allow the costs to be fully supported in order to support the material accuracy of the financial statements taken as a whole; however, certain documentation is essential to demonstrate an adequate control environment is in place. Without such documentation, evidence of an effective control environment does not exist. Sufficient documentation retention is essential for maintaining adequate support for costs incurred and the operating effectiveness of internal controls.

In regard to Recommendation #3, Kearney defers to the USAID Contracting Officer for a final determination as to the allowability of the questioned costs.

In regard to Recommendation #4, Kearney disagrees that all necessary supporting documentation was maintained and readily available. Kearney commends DAI for taking actions to improve processes and conduct reviews.

ASI NFR 2014-1.1 – Unexplained Discrepancies between the Final Monitoring Reports and General Ledger Balances

In regard to the updated FMRs, DAI completed these reconciliations as a result of auditor inquiry and not based on an adequately designed and/or executed control system. DAI needs to consider the timing of the reconciliations in relation to the end date of the contract under audit, and the

impact to DAI and the Government related to the lack of timely completion. DAI does not dispute that the documentation originally provided was not updated to include all transactions. The finding stands as issued.

ASI NFR 2014-1.2 – Clerical Errors

In regard to the subcontract invoice error, DAI does not dispute the error on the invoice. The finding stands as issued. DAI should consider accuracy with regard to payments (not only whether overpayments were made) to foster good will with their vendors. Further, internal controls should be designed and executed in a manner to prevent and detect errors in a timely manner.

ASI NFR 2014-1.3 – Untimely Payment

In regard to the untimely payments, DAI agreed that the payments were not made timely. The payments should be made within 30 days or invoices should be rejected and resubmitted by the vendor when adequate supporting documentation can be provided. The finding stands as issued.

In regard to DAI's general comments at the end of the NFR:

- In regard to CFR, Section 226.53, "Retention and Access Requirements," and DAI ASMED GDA Policies and Procedures, adequate documentation was not provided to support all costs; thus, DAI did not comply with all requirements
- In regard to the CFR, Section 226.71, "Close-out Procedures" not applying because the vendor is not a recipient but rather a contract, Kearney disagrees. According to the ASI Contract, under which 306-DOT-I-02-08-00035-00 is a Task Order, Section H.20, "Grant Under Contract," "Requirements which apply to USAID-executed grants shall also apply to grants executed by the contractor." Thus all close-out documentation should be correct. In order to properly close-out a grant, final reports must be provided and funds must be de-obligated; to accomplish this, an accurate amount of payments made to the grantee will need to be determined
- In regard to FAR Subpart 31.2, while adequate documentation was provided to support the costs incurred, adequate documentation was not provided to support all aspects of the transaction nor to evidence proper controls. In regard to acknowledging price reasonableness, Kearney did not challenge that work was not completed; however, all documentation to fully support the costs incurred was not provided
- In regard to the FMR, the documentation originally provided was not updated to include all transactions. If the transactions were not selected for audit, the reconciliation would not have been completed, thus an error could have gone undetected.

In regard to Recommendation #5, Kearney commends DAI for starting a review of the Technical Administrative Management Information System (TAMIS) and related processes. Kearney notes that an adequate review of an invoice can be completed and payment made with 30 days, as required by standards.

In regard to Recommendation #6, Kearney commends DAI for performing a review of the Field Operations Manual.

In regard to Recommendation #7, Kearney maintains that the payments were not made timely, in accordance with the documentation provided.

In regard to Recommendation #8, DAI demonstrated to Kearney that they intended to submit an invoice to USAID that would return the \$2,411 to USAID; this reduction in costs was included on the face of the SPFS provided to Kearney by DAI. As the costs were already removed from the SPFS, Kearney did not include them as questioned costs to be returned; thus, the costs were excluded from the recommendation and in the amounts questioned on the SPFS. Kearney notes that DAI has waived the recovery of \$27, and defers to the Contracting Officer for final approval.

In regard to the allowances, documentation to support the bidding decision provided was a Memo to File, dated January 2014, for a transaction that occurred in January of 2012. Adequate documentation should be available to support either the lack of competition or the competition prior to the transaction occurring. DAI's recordkeeping and retention practices need to be improved to ensure justifications are documented and maintained prior to incurring expenses, and not two years later as the result of audit inquiry. This is necessary to reduce risk to the contractor and the Government. The finding stands as issued.

In regard to the ODCs, adequate documentation should be available to support either the lack of competition or the competition prior to the transaction occurring. In this case, no written documentation was provided. DAI provided a verbal explanation explaining the reasons why the vendor was selected against the background of the environment of competition and compliance requirements. The finding stands as issued.

In regard to Recommendation #9, Kearney defers to the USAID Contracting Officer for a final determination as to the allowability of the questioned costs.

In regard to the results of the prior audit, Financial Audit of Costs Incurred by DAI for ASMED (USAID Office of Inspector General Audit Report No. F-306-12-002-N), Kearney acknowledges that DAI provided information as to the status. The Contracting Officer will make the final determination as to the allowability of the costs incurred.

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