

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-19 Financial Audit

Department of State's Afghan TV Content
Production Manager Project and Nationwide
Adult Literacy and Education Program: Audit of
Costs Incurred by Cetena Group



NOVEMBER
2014

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 26, 2010, the Department of State (State) awarded a cooperative agreement to Cetena Group (Cetena) in the amount of \$4,931,600. The initial period of performance was from October 1, 2010 through October 1, 2011. The agreement was modified two times to extend the period of performance through April 30, 2014. The project's purpose was to create content for Afghan television, the internet, and other medium. In addition, on February 24, 2011, State awarded a grant to Cetena in the amount of \$2,402,800. The initial period of performance was from February 24, 2011 through February 19, 2012, but the grant was modified three times, increasing the total award amount to \$3,493,104 and extending the period through July 31, 2012. The grant's purpose was to support the Nationwide Adult Literacy and Education program.

SIGAR's financial audit, performed by Mayer Hoffman McCann P.C. (MHM), reviewed \$7,215,420 in combined expenditures charged to the cooperative agreement from October 1, 2010 through December 31, 2013, and to the grant from February 24, 2011 through July 31, 2012. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Cetena's internal controls related to the two awards; (2) identify and report on instances of noncompliance with the terms of the awards and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Cetena had taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Cetena's Special Purpose Financial Statement. See MHM's report for the precise audit objectives.

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

November 2014

Department of State's Afghan TV Content Production Manager Project and Nationwide Adult Literacy and Education Program: Audit of Costs Incurred by Cetena Group

SIGAR 15-19-FA

WHAT THE AUDIT FOUND

Mayer Hoffman McCann P.C. (MHM) identified seven internal control weakness and three instances of noncompliance with terms of the cooperative agreement and grant. Specifically, MHM found that Cetena Group's (Cetena) new management did not ensure that documentation of costs incurred was properly retained when Cetena Consultancy acquired Cetena in March 2013. In addition, Cetena's previous management team did not have a formal records retention policy in place, as required by the two Department of State (State) awards. Cetena could not provide records, or provided insufficient records, to support transactions for personnel, fringe benefits, travel, procurement of supplies, contractual costs, and other direct cost categories. Cetena's management response indicated that the organization agreed with the findings because it could not provide documentation to support that the costs were reasonable, allowable, and allocable. As a result of these internal control weaknesses and instances of noncompliance, MHM identified \$4,799,768 in total questioned costs, consisting of \$4,760,263 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$39,505 in ineligible costs—costs prohibited by the awards, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel Costs	\$17,463	\$1,552,677	\$1,570,140
Fringe Benefits	\$443	\$67,500	\$67,943
Travel	\$0	\$15,793	\$15,793
Supplies	\$0	\$149,158	\$149,158
Contractual Costs	\$0	\$1,495,363	\$1,495,363
Other Direct Costs	\$21,599	\$1,479,772	\$1,501,371
Totals	\$39,505	\$4,760,263	\$4,799,768

MHM also identified an outstanding fund balance of \$132,266. Cetena will use the outstanding fund balance to cover costs to be incurred during the remaining period of performance of the cooperative agreement. MHM did not identify any prior audit report findings with a direct and material effect on Cetena's Special Purpose Financial Statement.

MHM rendered a qualified opinion on Cetena's Special Purpose Financial Statement because of the material effects of the nearly \$4.8 million in questioned costs, which represents a material misstatement of the Special Purpose Financial Statement.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that State's Agreement/Grant Officer:

1. Determine the allowability of and recover, as appropriate, \$4,799,768 in questioned costs identified in the report.
2. Advise Cetena to address the report's seven internal control findings.
3. Advise Cetena to address the report's three noncompliance findings.



SIGAR | Office of the Special Inspector General for Afghanistan Reconstruction

November 17, 2014

The Honorable John F. Kerry
Secretary of State

The Honorable James B. Cunningham
U.S. Ambassador to Afghanistan

We contracted with Mayer Hoffman McCann P.C. (MHM) to audit the costs incurred by Cetena Group (Cetena) under a Department of State (State) cooperative agreement and a State grant.¹ The audit performed covered expenditures of \$7,215,420 charged to the cooperative agreement from October 1, 2010 through December 31, 2013, and to the grant from February 24, 2011 through July 31, 2012. The contract required the audit to be performed in accordance with the generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that State's Agreement/Grant Officer:

- 1. Determine the allowability of and recover, as appropriate, \$4,799,768 in questioned costs identified in the report.**
- 2. Advise Cetena to address the report's seven internal control findings.**
- 3. Advise Cetena to address the report's three noncompliance findings.**

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-035)

¹ Department of State cooperative agreement number S-AF200-10-CA-014 was awarded on September 26, 2010, to implement the Afghan TV Content Production Manager project. Department of State grant number S-AF-200-11-GR143 was awarded on February 24, 2011, to support the Nationwide Adult Literacy and Education program.

CETENA GROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014
For the Period October 1, 2010 through December 31, 2013; and
Grant Agreement No. S-AF-200-11-GR143
For the Period February 24, 2011 through July 31, 2012

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Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014
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Grant Agreement No. S-AF-200-11GR143
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For the Period October 1, 2010 through December 31, 2013; and
Grant Agreement No. S-AF-200-11GR143
For the Period February 24, 2011 through July 31, 2012

SUMMARY

Background

Cetena Group ("Cetena" or "Organization") was established in 2005 and is an Afghan based organization with headquarters in Kabul, Afghanistan. The Organization is primarily engaged in project management, capacity building, business development, television, radio and print production services for a variety of international clients.

On September 26, 2010, the U.S. Department of State (DOS) awarded Cooperative Agreement Number S-AF200-10-CA-014 (Agreement) to Cetena in the amount of \$4,931,600. The initial period of performance was from October 1, 2010 through October 1, 2011. The Agreement was modified two times to extend the period of performance through April 30, 2014. The purpose of the Agreement was to serve as a TV Content Production Manager by creating content on Afghan television and creating story boards.

On February 24, 2011, the DOS awarded Grant Agreement Number S-AF-200-11-GR143 (Grant) to Cetena in the amount of \$2,402,800. The initial period of performance was from February 24, 2011 through February 19, 2012. The Grant was modified three times, increasing the total award amount to \$3,493,104 and extending the prior of performance through July 31, 2012. The purpose of the Grant was to support the nationwide adult literacy and education program.

In addition, for the Grant, Cetena submitted a draft application in May 2012 requesting an extension of the period of performance through May 1, 2013 in order to include an additional 6,000 Afghan students in the literacy program. An additional budget of \$2,117,212 was requested. Due to turnover within Cetena's management personnel in September 2013, the actual approved amendment for this extension could not be located. Additionally, the DOS was contacted and it had no record of an approved amendment. As such, this extended period of performance and increased budget was not included in the scope of the audit.

The Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under the Agreement for the period October 1, 2010 through December 31, 2013, and under the Grant for the period February 24, 2011 through July 31, 2012. As indicated above, the period of performance for Cooperative Agreement Number S-AF200-10-CA-014 ended on April 30th, 2014. However, since audit fieldwork started in January of 2014, the period January 1, 2014 through April 30, 2014 was not included in the scope of the audit.

Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

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Cooperative Agreement No. S-AF200-10-CA-014
For the Period October 1, 2010 through December 31, 2013; and
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- *The Special Purpose Financial Statement (SPFS)* – Express an opinion on whether the Special Purpose Financial Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Cetena's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether the Cetena complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Cetena has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement.

Scope

The scope of this audit included all costs incurred under the Agreement for the period October 1, 2010 through December 31, 2013, and all costs incurred under the Grant for the period February 24, 2011 through July 31, 2012. There were no indirect costs budgeted and claimed under the Agreement and the Grant. The period of performance for Cooperative Agreement Number S-AF200-10-CA-014 ended on April 30th, 2014. However, since the audit started in January of 2014, the period January 1, 2014 through April 30, 2014 was not included in the scope of the audit.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on February 5, 2014. Participants included representatives of Mayer Hoffman McCann P.C. (MHM), Cetena, and SIGAR. The DOS was not able

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to participate in the entrance conference. We briefed them subsequent to the entrance conference as to what was discussed.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Cetena;
- Reviewed the Agreement, the Grant and all of the related modifications;
- Reviewed regulations specific to DOS that are applicable to the Agreement and the Grant;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in number of transactions and homogeneous in nature, we selected a statistical sample of the costs. The sample size tested was based upon a 95% confidence level with a 5% maximum tolerable error rate. The sample was selected on a random basis. All other cost categories and/or accounts for which it was not appropriate to select a statistical sample, the sample was selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Agreement, Grant, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.
 - For high risk cost categories, we sampled at least 50% of the dollar value of the account.
 - For medium risk cost categories, we sampled at least 20% of the dollar value of the account.
 - For low risk cost categories, we sampled 10% of the dollar value of the account, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

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

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- Subcontracted a portion of the fieldwork, including a physical inspection of the National Museum, to HLB Ijaz Tabussum & Co., an independent chartered public accounting firm with an office located in Kabul, Afghanistan.

Internal Control Related to the SPFS

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

Compliance with Agreement and Grant Requirements, and Applicable Laws and Regulations

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

Corrective Action on Prior Findings and Recommendations

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

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

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

Exit Conference

An exit conference was held on June 3, 2014 via conference call. Participants included MHM, Cetena, SIGAR and the DOS. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

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Summary of Results

Our audit of the costs incurred by Cetena under the Agreement and Grant with the DOS identified the following matters:

Auditor's Opinion on SPFS

We issued a qualified opinion on the fairness of the presentation of the SPFS based upon the identification of \$3,108,832 of questioned costs under the Cooperative Agreement and \$1,690,936 under the Grant, which represents a material misstatement of the SPFS. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with DOS.

Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and Grant, and applicable laws and regulations, including the DOS' Standard Terms and Conditions for Overseas Federal Assistance Awards and FAR, Part 31. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows:

Ineligible Costs

- Pre-award costs incurred and charged to the Grant without DOS approval, resulting in ineligible costs of \$17,909. See Finding 2014-4 in the Finding and Responses section of this report.
- Rental expenses incurred after the end of the period of performance was charged to the Grant, resulting in \$16,860 of ineligible costs. See Finding 2014-5 in the Findings and Responses section of this report.
- Entertainment costs were charged to the Agreement, resulting in \$4,736 of ineligible costs. See Finding 2014-7 in the Findings and Responses section of this report.

Unsupported Costs

- Missing or insufficient documentation to support expenditures, resulting in Agreement questioned costs of \$1,850,469, and Grant questioned costs of \$1,601,325. Total questioned costs are \$3,451,794. See Finding 2014-1 in the Finding and Responses section of this report.

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Summary of Results (Continued)

- Documentation was not provided to support procurement efforts within the supplies, contractual and other direct costs cost categories, resulting in Agreement questioned costs of \$911,538, and Grant questioned costs of \$48,231. Total questioned costs are \$959,769. See Finding 2014-2 in the Finding and Responses section of this report.
- Costs claimed for Agreement were not supported by the accounting records, resulting in questioned costs of \$340,310. See Finding 2014-3 in the Finding and Responses section of this report.
- Missing assets due to the lack of an adequate asset tracking system, resulting in Agreement questioned costs of \$1,779, and Grant questioned costs of \$6,611. Total questioned costs are \$8,390. See Finding 2014-6 in the Findings and Responses section of this report.

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

	Cooperative <u>Agreement</u>	<u>Grant</u>	<u>Total</u>
Ineligible costs	\$ 4,736	\$ 34,769	\$ 39,505
Unsupported costs	<u>3,104,096</u>	<u>1,656,167</u>	<u>4,760,263</u>
Total questioned costs	<u>\$3,108,832</u>	<u>\$1,690,936</u>	<u>\$4,799,768</u>

Internal Control Findings

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the SPFS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

Material Weaknesses

The following material weaknesses were reported:

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Summary of Results (Continued)

Finding Number	Internal Control Finding – Material Weaknesses	Auditee's Concurrence
2014-1	Missing or insufficient documentation to support expenditures, resulting in Agreement questioned costs of \$1,850,469, and Grant questioned costs of \$1,601,325. Total questioned costs are \$3,451,794.	Agree
2014-2	Documentation was not provided to support procurement efforts within the supplies, contractual and other direct costs cost categories, resulting in Agreement questioned costs of \$911,538, and Grant questioned costs of \$48,231. Total questioned costs are \$959,769.	Agree
2014-3	Costs claimed for Agreement were not supported by the accounting records, resulting in questioned costs of \$340,310.	Agree

Significant Deficiencies

The following significant deficiencies were reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2014-4	Pre-award costs incurred and charged to the Grant without DOS approval, resulting in ineligible costs of \$17,909.	Agree
2014-5	Rental expenses incurred after the end of the period of performance was charged to the Grant, resulting in \$16,860 of ineligible costs.	Agree
2014-6	Missing assets due to the lack of an adequate asset tracking system, resulting in Agreement questioned costs of \$1,779, and Grant questioned costs of \$6,611. Total questioned costs are \$8,390.	Agree
2014-7	Entertainment costs were charged to the Agreement, resulting in \$4,736 of ineligible costs.	Agree

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Summary of Results (Continued)

Deficiencies

No deficiencies were reported.

The complete management responses from Cetena to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and Grant, and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of SPFS. The results of our tests disclosed the following compliance findings as described in the Findings and Responses section of this report.

Finding Number	Compliance Finding	Auditee's Concurrence
2014-4	Pre-award costs incurred and charged to the Grant without DOS approval, resulting in ineligible costs of \$17,909.	Agree
2014-5	Rental expenses incurred after the end of the period of performance was charged to the Grant, resulting in \$16,860 of ineligible costs.	Agree
2014-7	Entertainment costs were charged to the Agreement, resulting in \$4,736 of ineligible costs.	Agree

The complete management responses from Cetena to each of the compliance findings can be found in Appendix A to this report.

Summary of Cetena's Responses to Findings

Cetena indicated that when new management acquired the Organization in March 2013, most of the project managers and personnel resigned. In addition, due to the acquisition, Cetena was unable to locate much of the documentation that was requested as part of the audit in order to support the costs incurred under the Agreement. The Organization elected not to provide individual responses that address each of the findings. Instead, it provided a single response which covers all findings included in the report. Cetena's response indicated that they have to agree with the findings as they are unable

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to provide documentation that would support that the costs were reasonable, allowable and allocable. Cetena's complete response received can be found in Appendix A to this report.

Review of Prior Findings and Recommendations

The only prior audit was the audit of financial statements on the TV Content Production Manager for the period ended June 30, 2011 performed by Farahat & Company. There were no findings and recommendations identified in this audit.



Board of Directors
Cetena Group
Dar-ul-Aman Road, Carte 3
Kabul, Afghanistan

INDEPENDENT AUDITORS' REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Cetena Group (Cetena) under Cooperative Agreement Number S-AF200-10-CA-014 (Agreement) for the period October 1, 2010 through December 31, 2013, and Grant Agreement Number S-AF-200-11GR143 (Grant) for the period February 24, 2011 through July 31, 2012 with the United States Department of State (DOS), and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditors' Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Special Purpose Financial Statement is free from material misstatement, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by

reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

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

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

Basis for Qualified Opinion

We identified several transactions totaling \$4,799,768 that were questionable based upon our review of the underlying support for the specified transactions. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with the DOS.

Qualified Opinion

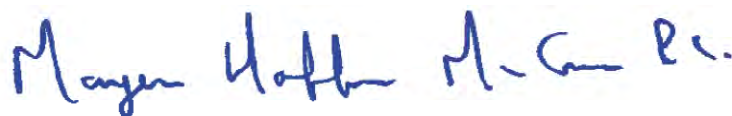
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by Cetena under the Agreement for the period October 1, 2010 through December 31, 2013, and the Grant for the period February 24, 2011 through July 31, 2012 in accordance with the basis of accounting described in Note 2.

Board of Directors
Cetena Group
Dar-ul-Aman Road, Carte 3
Kabul, Afghanistan

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 1, 2014 on our consideration of Cetena's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cetena's internal control over financial reporting and compliance.

This report is intended for the information of Cetena Group, the United States Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink, appearing to read "Mayer Hoffman M. C. B.".

Irvine, California
August 1, 2014

CETENA GROUP

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Special Purpose Financial Statement

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
SAF200-10-CA014	\$4,931,600	\$4,363,668	\$ -	\$ -	\$ -	(4)
S-AF-200-11GR143	3,493,104	2,984,018	-	-	-	(4)
Total revenues	8,424,704	7,347,686	-	-	-	
Costs incurred:						
<u>Cooperative Agreement</u>						
Personnel costs	566,656	368,870	-	368,870	368,870	(A)
Fringe benefits	27,500	81,009	-	45,536	45,536	(B)
Travel	178,200	24,555	-	(475)	(475)	(C)
Supplies	103,308	117,133	-	63,686	63,686	(D)
Contractual	1,659,000	1,819,643	-	1,495,363	1,495,363	(E)
Other direct costs	2,396,936	1,809,600	4,736	1,131,116	1,135,852	(F)
Subtotal Cooperative Agreement	4,931,600	4,220,810	4,736	3,104,096	3,108,832	
<u>Grant</u>						
Personnel costs	2,172,548	1,917,363	17,463	1,183,807	1,201,270	(A)
Fringe benefits	58,500	41,230	443	21,964	22,407	(B)
Travel	83,004	78,079	-	16,268	16,268	(C)
Supplies	146,496	231,647	-	85,472	85,472	(D)
Other direct costs	1,032,556	726,291	16,863	348,656	365,519	(F)
Subtotal Grant	3,493,104	2,994,610	34,769	1,656,167	1,690,936	
Total costs incurred	8,424,704	7,215,420	39,505	4,760,263	4,799,768	
Outstanding fund balance	\$ -	\$ 132,266	(39,505)	(4,760,263)	(4,799,768)	(9)

See Notes to Special Purpose Financial Statement
and Notes to Questioned Costs Presented on Special Purpose Financial Statement

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014
For the Period October 1, 2010 through December 31, 2013; and
Grant Agreement No. S-AF-200-11GR143
For the Period February 24, 2011 through July 31, 2012

Notes to Special Purpose Financial Statement¹

(1) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under Cooperative Agreement Number S-AF200-10-CA-014 (Agreement) for the period October 1, 2010 through December 31, 2013, and Grant Agreement Number S-AF-200-11GR143 (Grant) for the period and February 24, 2011 through July 31, 2012. Because the SPFS presents only a selected portion of the operations of Cetena Group (Cetena), it is not intended to and does not present the financial position, changes in net assets, or cash flows of Cetena. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR) and accounting principles generally accepted in the United States of America, and is specific to the aforementioned Agreement and Grant.

(2) **Basis of Accounting**

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation, Part 31.103 – *Contracts with Commercial Organizations*.

(3) **Foreign Currency Conversion Method**

For purposes of preparing the SPFS, Cetena converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by applying an exchange rate prevailing on the date of transaction.

(4) **Revenue**

Agreement

As of December 31, 2013, Cetena reported Agreement revenue of \$4,363,668. Included in revenue is \$142,858 representing advances received for which expenses had not been incurred as of December 31, 2013.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of Cetena

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014 and
Grant Agreement No. S-AF-200-11GR143

Notes to Special Purpose Financial Statement

(Continued)

(4) Revenue (Continued)

Grant

As of July 31, 2012, Cetena reported Grant revenue of \$2,984,018. The expenses incurred by Cetena under the Grant were \$2,994,610. Cetena has not requested reimbursement for the total expenses incurred. The amount underclaimed is \$10,592.

(5) Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, DOS-approved Agreement and Grant budgets.

(6) Currency

All amounts presented are shown in U.S. dollars, the reporting currency of Cetena. Costs incurred in a foreign country and recorded in a foreign currency have been converted to U.S. dollars consistent with Cetena's foreign currency conversion policy.

(7) Status of Financial Reporting to DOS

The SPFS, as presented, reflects all SF-425s submitted to DOS as of December 31, 2013 for the Agreement and July 31, 2012 for the Grant. The period of performance on the Agreement continues through April 30, 2014 and costs continue to be incurred. The Grant has been closed and no further costs will be incurred.

(8) Indirect Costs

There were no indirect costs budgeted and charged to the Agreement or Grant.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014 and
Grant Agreement No. S-AF-200-11GR143

Notes to Special Purpose Financial Statement

(Continued)

(9) Outstanding Fund Balance

Agreement

As of December 31, 2013, there was an outstanding fund balance in the amount of \$142,858. This outstanding fund balance will be used by Cetena to cover costs to be incurred during the remaining period of performance of the Agreement.

Grant

As of July 31, 2012, there was \$10,592 of net expenses incurred but not claimed and reported to the DOS. This amount, if it were claimed, would be due to Cetena as it represents allowable Grant expenses.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014
For the Period October 1, 2010 through December 31, 2013; and
Grant Agreement No. S-AF-200-11GR143
For the Period February 24, 2011 through July 31, 2012

Notes to Questioned Costs Presented on Special Purpose Financial Statement²

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

(A) Personnel

Cetena reported personnel costs in the amount of \$368,870 for the period October 1, 2010 through December 31, 2013 under the Agreement, and 1,917,363 for the period of February 24, 2011 through July 31, 2012 under the Grant. During our audit of these costs, we noted the following, which resulted in questioned costs:

Finding Number	Observation	Questioned Costs		
		Agreement	Grant	
		Unsupported	Ineligible	Unsupported
2014-1	Unsupported costs	\$262,500	\$ -	\$1,183,807
2014-3	Costs not supported by accounting records	106,370	-	-
2014-4	Pre-award costs claimed	-	17,463	-
Total questioned personnel costs		\$368,870	\$17,463	\$1,183,807

(B) Fringe Benefits

Cetena reported fringe benefits in the amount of \$81,009 for the period October 1, 2010 through December 31, 2013 under the Agreement, and \$41,230 for the period of February 24, 2011 through July 31, 2012 under the Grant. During our audit of these costs, we noted the following, which resulted in questioned costs:

Finding Number	Observation	Questioned Costs		
		Agreement	Grant	
		Unsupported	Ineligible	Unsupported
2014-1	Unsupported costs	\$43,210	\$ -	\$21,964
2014-3	Costs not supported by accounting records	2,326	-	-
2014-4	Pre-award costs claimed	-	443	-
Total questioned personnel costs		\$45,536	\$443	\$21,964

² The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

(C) Travel

Cetena reported travel in the amount of \$24,555 for the period October 1, 2010 through December 31, 2013 under the Agreement, and \$78,079 for the period of February 24, 2011 through July 31, 2012 under the Grant. During our audit of these costs, we noted the following, which resulted in questioned costs:

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>	
		<u>Agreement</u>	<u>Grant</u>
2014-1	Unsupported costs	\$10,148	\$ 16,268
2014-3	Costs not supported by accounting records	<u>(10,623)</u>	<u>-</u>
Total questioned travel		\$ <u>(475)</u>	\$ <u>16,268</u>

(D) Supplies

Cetena reported supplies in the amount of \$117,133 for the period October 1, 2010 through December 31, 2013 under the Agreement, and \$231,647 for the period of February 24, 2011 through July 31, 2012 under the Grant. During our audit of these costs, we noted the following, which resulted in questioned costs:

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Cost</u>	
		<u>Agreement</u>	<u>Grant</u>
2014-1	Unsupported costs	\$58,234	\$52,325
2014-2	Lack of effective procurement procedures	7,173	26,536
2014-3	Costs not supported by accounting records	(3,500)	-
2014-6	Missing assets	<u>1,779</u>	<u>6,611</u>
Total questioned supplies		\$ <u>63,686</u>	\$ <u>85,472</u>

(E) Contractual

Cetena reported contractual costs in the amount of \$1,819,643 for the period October 1, 2010 through December 31, 2013 under the Agreement. During our audit of these costs, we noted the following, which resulted in questioned costs:

CETENAGROUP

Financial Audit of Costs Incurred Under Cooperative Agreement No. S-AF200-10-CA-014; and Grant Agreement No. S-AF-200-11GR143

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

(E) Contractual (Continued)

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>
2014-1	Unsupported costs	\$ 622,306
2014-2	Lack of effective procurement procedures	<u>873,057</u>
Total questioned contractual costs		<u>\$1,495,363</u>

(F) Other Direct Costs

Cetena reported other direct costs in the amount of \$1,809,600 for the period October 1, 2010 through December 31, 2013 under the Agreement, and \$726,291 for the period of February 24, 2011 through July 31, 2012 under the Grant. During our audit of these costs, we noted the following, which resulted in questioned costs:

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Cost</u>	
		<u>Cooperative Agreement</u>	<u>Grant</u>
Ineligible costs:			
2014-4	Pre-award costs claimed	\$ -	\$ 3
2014-5	Costs incurred after period of performance	-	16,860
2014-7	Entertainment costs	<u>4,736</u>	<u>-</u>
Total ineligible costs		<u>4,736</u>	<u>16,863</u>
Unsupported costs:			
2014-1	Unsupported costs	854,071	326,961
2014-2	Lack of effective procurement procedures	31,308	21,695
2014-3	Costs not supported by accounting records	245,737	-
2014-4		<u>-</u>	<u>-</u>
Total unsupported costs		<u>1,131,116</u>	<u>348,656</u>
Total questioned other direct costs		<u>\$1,135,852</u>	<u>\$365,519</u>



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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cetena Group
Dar-ul-Aman Road, Carte 3
Kabul, Afghanistan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Cetena Group (Cetena) representing revenues received and costs incurred under Cooperative Agreement Number S-AF200-10-CA-014 (Agreement) for the period October 1, 2010 through December 31, 2013, and Grant Agreement Number S-AF-200-11GR143 (Grant) for the period February 24, 2011 through July 31, 2012 with the Department of State (DOS), and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 1, 2014, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.



Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered Cetena's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Cetena's internal control. Accordingly, we do not express an opinion on the effectiveness of Cetena's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2014-1, 2014-2 and 2014-3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2014-4, 2014-5, 2014-6 and 2014-7 to be significant deficiencies.

Cetena's Response to Findings

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

Purpose of this Report

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

Board of Directors
Cetena Group
Dar-ul-Aman Road, Carte 3
Kabul, Afghanistan

Additionally, this report is intended for the information of Cetena Group, the United States Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Mazen Hattar M-Gen P.E.

Irvine, California
August 1, 2014



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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cetena Group
Dar-ul-Aman Road, Carte 3
Kabul, Afghanistan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Cetena Group (Cetena) representing revenues received and costs incurred under Cooperative Agreement Number S-AF200-10-CA-014 (Agreement) for the period October 1, 2010 through December 31, 2013, and Grant Agreement Number S-AF-200-11GR143 (Grant) for the period February 24, 2011 through July 31, 2012 with the Department of State (DOS), and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 1, 2014, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cetena's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Agreement and Grant, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Responses as Findings 2014-4, 2014-5, and 2014-7.

Cetena's Response to Findings

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

Purpose of this Report

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

Additionally, this report is intended for the information of Cetena Group, the Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



Irvine, California
August 1, 2014

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014
For the Period October 1, 2010 through December 31, 2013; and
Grant Agreement No. S-AF-200-11GR143
For the Period February 24, 2011 through July 31, 2012

Findings and Responses

2014-1: Missing or Insufficient Source Documentation to Support Expenses

Condition:

For 161 and 245 sampled transactions tested for the Agreement and the Grant, respectively, Cetena could not provide records to support transactions selected for testing in the personnel, fringe benefits, travel, supplies, contractual, and other direct cost categories as follows:

Agreement:

<u>Observation</u>	<u>Number of Transactions</u>	<u>Amount</u>
Personnel:		
No supporting documentation provided	<u>39</u>	\$ <u>262,500</u>
Fringe benefits:		
No supporting documentation provided	<u>7</u>	<u>43,210</u>
Travel:		
No supporting documentation provided	6	8,830
Missing approval on requisition form, purpose of travel and list of shortlisted or approved travel agency	<u>1</u>	<u>1,318</u>
Subtotal travel	<u>7</u>	<u>10,148</u>
Supplies:		
No supporting documentation provided	<u>26</u>	<u>58,234</u>
Contractual:		
No supporting documentation provided	<u>10</u>	<u>622,306</u>
Other direct costs:		
No supporting documentation provided	38	715,161
Missing evidence of payment, voucher with approval and authorization of payment, rental agreement and evidence of tax withholding deduction	1	47,000
Missing evidence of payment, approval and authorization of payment, evidence of withholding tax deduction	<u>13</u>	<u>91,910</u>
Subtotal other direct costs	<u>52</u>	<u>854,071</u>
Total costs where documentation was missing or not provided	<u>141</u>	\$ <u>1,850,469</u>

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Grant:

<u>Observation</u>	<u>Number of Transactions</u>	<u>Amount</u>
Personnel:		
No supporting documentation provided	38	\$ 346,372
Missing payroll register, evidence of payment, vouchers approval and authorization, personnel files, timesheets, leave records, and support for payroll withholding	24	98,175
Missing payroll register, evidence of payment, vouchers approval and authorization, personnel files, timesheets, leave records, support for payroll withholding, and salary rate did not agree to employment contract	6	30,309
Missing payroll register, evidence of payment, vouchers approval and authorization, personnel files, timesheets, leave records, support for payroll withholding, and allocation support for salary charged to the grant	23	89,551
Missing personnel files, timesheets, and professional certification and educational background for teachers and trainers	<u>56</u>	<u>619,400</u>
Subtotal personnel	<u>147</u>	<u>1,183,807</u>
Fringe benefits:		
No supporting documentation provided	5	7,910
Missing requisition form	4	6,070
Missing invoices and allocation support	<u>6</u>	<u>7,984</u>
Subtotal fringe benefits	<u>15</u>	<u>21,964</u>
Travel:		
Requisition form was requested and approved by the same individual	3	9,869
General task request form was not approved by the Finance Department	<u>2</u>	<u>6,399</u>
Subtotal travel	<u>5</u>	<u>16,268</u>

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

<u>Observation</u>	<u>Number of Transactions</u>	<u>Amount</u>
Supplies:		
No supporting documentation provided	<u>2</u>	\$ <u>52,325</u>
Other direct costs:		
No supporting documentation provided	1	2,867
Missing Goods Received Notes (GRN), evidence of payment, proof of delivery and comparative price analysis	1	16,923
Missing GRN or signature on GRN, evidence of payment, and proof of delivery	38	305,774
Missing invoices	<u>1</u>	<u>1,397</u>
Subtotal other direct costs	<u>41</u>	<u>326,961</u>
Total costs where documentation was missing or not provided	<u>210</u>	<u>\$1,601,325</u>

In addition to the documentation that was missing or not provided to support expenses incurred, Cetena was unable to provide the following documentation to support program operations. No costs were questioned as a result of this missing documentation.

Agreement:

- Grant modification to extend the Agreement period from March 31, 2013 to December 31, 2013. However, Cetena was able to provide the modification to extend the Agreement to April 30, 2014.

Grant:

- Federal financial reports for the following quarters:
 - 2011 – Quarters 2 and 4
 - 2012 – Quarter 4
 - 2013 – Quarters 1 and 2
- Quarterly program narrative reports for the following quarters:
 - 2011 – Quarters 1 and 2
 - 2012 – Quarters 1 through 4
 - 2013 – Quarters 1 and 2

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Cause:

Cetena was acquired in March 2013. The new management did not ensure documentation of costs incurred were properly retained when the acquisition took place. In addition, Cetena's old management did not have a formal retention policy in place as required by DOS award requirements.

Criteria:

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

"...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported..."

Grant Number S-AF-200-11-GR143, U.S Department of State Award Specifics, Paragraph 8, states, in part:

"The Recipient is required to submit quarterly program and financial reports..."

U.S. Department of State, Standard Terms and Conditions, Overseas Federal Assistance Awards, Paragraph 30, *Retention of Records*, states, in part:

"The recipients must maintain financial records, supporting documents, statistical records, and all other records pertinent to an award for a period of three years from the date of submission of the final expenditure report..."

Effect:

Failure to maintain adequate supporting documentation resulted in an inability to demonstrate that costs incurred were allowable, allocable and related to the Agreement and the Grant. Costs in the amount of \$3,451,794, consisting of \$1,850,469 for the Agreement and \$1,601,325 for the Grant, were questioned.

Recommendation:

- (1) We recommend that Cetena either provide adequate documentation to DOS to support the costs incurred, or return \$3,451,794 to the DOS for unsupported costs.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

- (2) We recommend that Cetena develop a policy and implement appropriate procedures for maintaining records, including supporting documentation, to demonstrate that costs claimed have been incurred and are allocable to the contract.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-2: Lack of Effective Procurement Procedures

Condition:

Cetena was unable to provide records, or provided insufficient records, to support its procurement efforts for sampled transaction in the supplies, contractual, and other direct costs cost categories as follows:

Agreement:

	<u>Observation</u>	<u>Number of Transactions</u>	<u>Amount</u>
Supplies:			
	Missing documentation of competitive procurement process, purchase requisition form, GRN, evidence of payment and support for tax withholding	1	\$ 4,170
	Missing documentation of competitive procurement process, purchase requisition form and list of shortlisted suppliers for grocery items	<u>2</u>	<u>3,003</u>
Subtotal supplies		3	7,173
Contractual:			
	Missing documentation of competitive procurement process, purpose of the services was not described in the purchase requisition form, missing evidence of service performance and completion report, and support for tax withholding	15	873,057
Other direct costs:			
	Missing documentation of competitive procurement process, purchase requisition form and list of shortlisted suppliers for grocery items	<u>2</u>	<u>31,308</u>
Total costs that did not follow procurement procedures		<u>20</u>	<u>\$911,538</u>

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-2: Lack of Effective Procurement Procedures (Continued)

Grant:

<u>Observation</u>	<u>Number of Transactions</u>	<u>Amount</u>
Supplies:		
Supplier with the lowest quotation was not awarded and no justification was documented; the difference between the awarded vendor and the lowest quotation is \$4,050	1	\$ 4,050
3 quotations not obtained and no sole source justification	2	12,576
3 quotations not obtained, no sole source justification and purchase requisition was requested and approved by the same individual	<u>2</u>	<u>9,910</u>
Subtotal supplies	<u>5</u>	<u>26,536</u>
Other direct costs:		
Missing quotations, approval and authorization, purchase requisition, invoices, GRN, evidence of payment and proof of delivery	1	5,592
Missing quotation and comparative price analysis, signature on requisition form, GRN, evidence of payment and proof of delivery	<u>3</u>	<u>16,103</u>
Subtotal other direct costs	<u>4</u>	<u>21,695</u>
Total costs missing procurement and other documentation	<u>9</u>	<u>\$ 48,231</u>

Cause:

Cetena was acquired in March 2013. The new management did not ensure documentation of costs incurred was properly retained when the acquisition took place. In addition, Cetena's old management did not have effective procurement policies and procedures in place and did not require minimum quotations for items purchased over certain monetary amounts. Finally, Cetena's old management did not have a formal retention policy in place as required by DOS award requirements..

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-2: Lack of Effective Procurement Procedures (Continued)

Criteria:

Cetena's Purchasing Process Form procedures, states, in part:

"CG 201 Purchase Request

1. Request form is completed by the Requesting Party.
2. Form is submitted to Fin P/C Dept which establishes Quotation..."

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

"...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported..."

Additionally, 48 CFR 52.244-5, *Competition in Subcontracting*, states in part.

"...(a) The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract..."

Effect:

Lack of effective procurement procedures to ensure vendors and subcontractors are selected on a competitive basis can result in the acquisition of goods and/or services that are not competitively priced. In a hostile environment, effective procurement policies and procedures are critical in order to ensure funds expended are reasonable, allowable and allocable to the award. Costs in the amount of \$959,769, consisting of \$911,538 for the Agreement and \$48,231 for the Grant, were questioned.

Recommendation:

- (1) We recommend that Cetena either provide evidence to the DOS that goods and/or services were competitively procured, or return \$959,769 for costs in which there was a lack of adherence with procurement procedures.
- (2) We recommend that Cetena develop a more effective policy and implement procedures to ensure vendors and subcontractors are competitively selected for goods and/or services procured as required by the CFR.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-3: Costs Claimed for Agreement Not Supported by Accounting Records

Condition:

Cetena's accounting records did not support the total costs claimed under the Agreement as of December 31, 2013 as follows:

<u>Cost Category</u>	<u>Costs Claimed per SPSE</u>	<u>Costs per Accounting Records</u>	<u>Costs Over/(Under) Claimed</u>
Personnel	\$ 368,870	\$ 262,500	\$106,370
Fringe benefits	81,009	78,683	2,326
Travel	24,555	35,178	(10,623)
Supplies	117,133	120,633	(3,500)
Other direct cost	<u>1,809,600</u>	<u>1,563,863</u>	<u>245,737</u>
Total	<u>\$2,401,167</u>	<u>\$2,060,857</u>	<u>\$340,310</u>

Cause:

Cetena was acquired in March 2013. The new management did not ensure documentation of costs incurred was properly retained when the acquisition took place. In addition, Cetena's old management lacked policies and procedures to retain supporting documentation.

Criteria:

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

"...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported..."

Additionally, U.S. Department of State, Standard Terms and Conditions, Overseas Federal Assistance Awards, Paragraph 30, *Retention of Records*, states, in part:

"The recipients must maintain financial records, supporting documents, statistical records, and all other records pertinent to an award for a period of three years from the date of submission of the final expenditure report..."

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-3: Costs Claimed for Agreement Not Supported by Accounting Records (Continued)

Effect:

Failure to maintain and retain adequate accounting records to support costs claimed results in an inability to demonstrate that costs incurred were allowable and allocable to the Agreement. Net costs in the amount of \$340,310 for costs not supported by the accounting records were questioned.

Recommendation:

- (1) We recommend that Cetena either provide evidence to the DOS to support the costs claimed under the Agreement, or refund \$340,310 for net costs not supported by the accounting records.
- (2) We recommend that Cetena establish procedures to ensure that costs claimed are supported by the accounting records.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-4: Pre-Award Costs Claimed without Approval

Condition:

Cetena incurred and claimed the pre-award costs under the Grant for the following cost categories. No documentation was provided to support that the DOS approved these costs.

<u>Cost Category</u>	<u>Pre-Award Costs Claimed</u>
Personnel	\$17,463
Fringe benefits	443
Other direct costs	<u>3</u>
Total pre-award costs claimed	<u>\$17,909</u>

Cause:

Cetena lacked policies and procedures to obtain approval from the DOS for pre-award costs as they were unaware of this requirement.

Criteria:

Grant Number S-AF-200-11-GR143, Federal Assistance Award, Box 10, *Project Period*, states, in part:

“...From 2-24-11...”

U.S. Department of State, Standard Terms and Conditions, Overseas Federal Assistance Awards, Paragraph 9, *Pre-Award Costs*, states:

“The GO is authorized, at their option, to waive required pre-award written prior approvals. This waiver may include the following, authorizing recipients to:

- Incur pre-award costs 90 calendar days prior to award. GO approval is required for pre-award costs that exceed the 90 calendar days. All pre-award costs are incurred at the risk of the recipient (i.e., the Department is under no obligation to reimburse such costs if for any reason the recipient does not receive an award or if the award is less than anticipated and inadequate to cover such costs).
- Pre-award costs must be necessary for the effective and economical conduct of the project period and the costs must be otherwise allowable in accordance with prior approval requirements.”

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-4: Pre-Award Costs Claimed without Approval (Continued)

Effect:

Failure to notify DOS and obtain approval of pre-award costs result in ineligible costs charged to the Grant. Costs in the amount of \$17,909 under the Grant were questioned and deemed ineligible.

Recommendation:

- (1) We recommend that Cetena provide evidence that the pre-award costs were approved by the DOS, or return \$17,909 to the DOS for unapproved pre-award costs.
- (2) We recommend that Cetena develop policies and implement procedures to ensure only approved pre-award costs and costs incurred during the project period are claimed.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-5: Rental Expenses Incurred After the Project Period

Condition:

The project period for the Grant ended on July 31, 2012. Subsequent to the project period, Cetena incurred and claimed rental expenses for classrooms in the amount of \$16,860. This cost was claimed under the Other Direct Costs cost category.

Cause:

Cetena did not have policies and procedures in place to terminate the rental agreement after the completion of the project.

Criteria:

Grant Number S-AF-200-11-GR143, Amendment 2 to the Federal Assistance Award, Box 4, *Description of the Amendment*, states, in part:

“...and extend the duration of the classes through July 31, 2012.”

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

“...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported...”

Effect:

Costs claimed after the project period resulted in ineligible costs claimed under the Grant in the amount of \$16,860.

Recommendation:

- (1) We recommend that Cetena either provide an explanation and documentation to the DOS to demonstrate why the rental expenses were allowable, or return \$16,860 for ineligible costs incurred after the project period.
- (2) We recommend that Cetena develop policies and implement procedures to ensure that only costs incurred during the project period are claimed.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-6: Lack of Adequate Asset Tracking System

Condition:

Cetena did not have an adequate asset tracking system in place. Of the 18 assets selected for physical inspection under the Agreement and 8 assets selected for physical inspection under the Grant, none of the assets had an asset tag assigned and the locations of the assets were not stated in the asset tracking log. Additionally, Cetena was unable to locate 9 out of 18 sampled assets under the Agreement, and 8 out of 8 sampled assets under the Grant, which totaled \$10,484 and \$6,611, respectively. The assets were claimed under the Supplies cost category. The missing assets were as follows:

Agreement:

<u>Description</u>	<u>Voucher No.</u>	<u>Date Purchased</u>	<u>Cost</u>
Dell laptop computers	JVP50-07/11	07/01/11	\$ 1,400
Sony VPL-Ex100 XGA projector	JVP12-10/11	10/23/11	520
Sony laptops from Micro Computer System	JVP04-12/10	12/26/10	1,045
Sony laptops from Micro Computer System	JVP05-12/10	12/30/12	1,045
Sony laptops from Micro Computer System	JVP06-12/10	12/30/12	1,045
1 TB external hard drive	JVP04-10/10	10/25/10	185
1 TB external hard drive	JVP04-10/10	10/25/10	190
Computer	JVP14-02/11	03/31/11	884
6 Dell Inspiron 4020 computers	JVP0-04/11	04/01/11	4,170
Total missing assets under Agreement			<u>\$10,484</u>

Grant:

<u>Description</u>	<u>Voucher No.</u>	<u>Date Purchased</u>	<u>Cost</u>
Carpet	LPO#584	03/20/11	\$4,014
Sony camera disc-W320 14.1 Mega Pix,4x zoom	LPO#365	04/14/11	400
Sony camera disc-W320 14.1 Mega Pix,4x zoom	LPO#365	04/14/11	190
HP Laser Jet (P2035 N) Printer	LPO#792	02/24/11	299
Camera (Sony,2 GB,SD Card,)	LPO#3025	07/22/12	270
Refrigerator	LPO#435	07/07/11	384
Voltage regulator	LPO#435	07/07/11	44
Photocopier Model AR-M236	LPO#1703	01/02/12	1,010
Total missing assets under Grant			<u>\$6,611</u>

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-6: Lack of Adequate Asset Tracking System (Continued)

Cause:

Cetena did not have a policy and procedure in place for tracking assets.

Criteria:

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

“...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported...”

Effect:

Without a system to track assets purchased, assets could be sold and the proceeds used for something other than the objective of the awards without DOS’ knowledge. Of the \$10,484 of missing assets under the Agreement, \$4,535 and \$4,170 have already been questioned as part of the questioned costs in Findings 2014-1 and 2014-2, respectively. As a result, costs in the amount of \$1,779 under the Agreement, and \$6,611 under the Grant have been questioned. Total questioned costs due to the lack of an adequate asset tracking system are \$8,390.

Recommendation:

- (1) We recommend that Cetena either provide verification to the DOS as to whether or not they are still in possession of these assets, or return \$8,390 to the DOS for the cost of the missing assets.
- (2) We recommend that Cetena develop a policy and procedure to track assets purchased with federal funds.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014; and
Grant Agreement No. S-AF-200-11GR143

Findings and Responses

(Continued)

2014-7: Unallowable Costs Were Charged to the Agreement

Condition:

Cetena claimed \$4,736 of entertainment costs related to a short film screening festival under the Agreement. This cost was claimed under the Other Direct Costs cost category.

Cause:

Cetena was unaware that entertainment costs were not allowable and lacked policies and procedures to prevent unallowable entertainment costs from being billed as allowable costs.

Criteria:

48 CFR 31.205-14, Entertainment, states, in part:

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

Additionally, U.S. Department of State’s Standard Terms and Conditions for Overseas Federal Assistance Awards, Paragraph 11, *Unallowable Costs*, states, in part:

“Unallowable costs” means general or centralized expenses of a recipient that receives Department of State funds that are not allowable administrative costs to be financed by the Department of State Award...

e) Entertainment. Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities...”

Effect:

Reporting unallowable entertainment costs as allowable raises concerns about the propriety of Cetena’s billing system. Cetena claimed \$4,736 of unallowable entertainment costs, which have been deemed ineligible questioned costs.

Recommendation:

- (1) We recommend that Cetena either provide evidence to the DOS as to why these costs should be allowable, or return \$4,736 to the DOS for ineligible entertainment costs.
- (2) We recommend that Cetena develop policies and implement procedures to prevent unallowable costs from being billed as allowable costs.

CETENAGROUP

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF200-10-CA-014
For the Period October 1, 2010 through December 31, 2013; and
Grant Agreement No. S-AF-200-11GR143
For the Period February 24, 2011 through July 31, 2012

Cetena's Responses to Findings

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

"APPENDIX A"

CETENA CONSULATANCY RESPONSE:

Sometime in March 2013, Cetena Consultancy with its new owners took over the assets and liabilities of Cetena Group. During these period, most of the project managers have resigned from their post and only Kavita Nair was left behind to attend to the existing projects. Also there was never a formal hand over of existing projects when Kavita left in April 2013. All we have as I discovered were box files for the 2 grants from the US Embassy. I thought that these files were the only documents needed once grant audit comes.

Then came the notice of audit by Tabussum. They don't even have their own website and consume a lot of supplies and food of the office. We have provided them with everything they ask even to the extent of digging some files from a 20 foot container somewhere near the house of 1 company officer. Also dig IT back up files that were required by Tabussum auditors, found many of them and printed all, but later on rejected by Tabussum and they wanted soft copies only. Had some altercations with the head auditor because it seems we are hiding some documents from them. Repeatedly explained to him that there was no proper hand over of this grants and only the box files were available as supporting documents of the 2 grants which of course they don't believe. As if we are withholding information from them. Thus this big discrepancies on the supporting documents which they hand picked for random sampling. I requested them to replace some samples if the supporting documents were not available on file but still they stuck to their audit plan. Auditors won't accept any explanation on documents not available.

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