

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-28 Financial Audit

**USAID's Afghan Sustainable Water Supply
and Sanitation Project: Audit of Costs
Incurred by ARD, Inc.**



**JANUARY
2015**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 29, 2009, the U. S. Agency for International Development (USAID) awarded a \$51,863,898 task order, inclusive of two option periods, to ARD, Inc. (ARD) to implement the Afghan Sustainable Water Supply and Sanitation Project. The project's purpose was to improve the long-term sustainability of potable water supply and sanitation services, improve the hygiene behaviors of poor and vulnerable populations in Afghanistan through a hygiene education campaign, and strengthen local community capacity for water supply management. ARD incurred costs of \$42,517,360 over the course of the project, which spanned from September 30, 2009, through December 29, 2012, after USAID issued 13 modifications to the task order and exercised both option periods.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$42,517,360 in expenditures charged to the task order from September 30, 2009 through December 29, 2012. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in ARD's internal controls related to the award; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether ARD had taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ARD's Special Purpose Financial Statement. See Crowe Horwath'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 Crowe Horwath did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2015

USAID's Afghan Sustainable Water Supply and Sanitation Project: Audit of Costs Incurred by ARD, Inc.

SIGAR 15-28-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified six material weaknesses, one significant deficiency in internal controls, and nine instances of noncompliance with laws, regulations, or the terms and conditions of the task order. For example, Crowe Horwath found instances of unauthorized overtime and sixth-day workweek charges for locally-hired contract personnel and unapproved information technology (IT) equipment and software purchases. Because ARD did not separate the questionable overtime from other charges and did not provide specifics of IT purchases subject to approval, Crowe Horwath recommended that ARD conduct analyses of overtime, sixth-day workweek compensation and the approval of IT equipment and software purchases, and provide the results to USAID.

As a result of these internal control deficiencies and instances of noncompliance, Crowe Horwath identified at least \$330,105 in total questioned costs, as shown in the table below. However, this amount could change based on the results of ARD's analysis of overtime and IT equipment purchases. The \$330,105 in questioned costs consist of \$170,612 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$159,493 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$159,493	\$170,612	\$330,105
Totals	\$159,493	\$170,612	\$330,105

In addition, Crowe Horwath estimated that the U.S. government lost \$698 in interest because ARD submitted costs for reimbursement before they were eligible.

Crowe Horwath did not identify any prior reviews or assessments that pertained to ARD's implementation of the Afghan Sustainable Water Supply and Sanitation Project or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on ARD's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$330,105 in questioned costs identified in the report.**
- 2. Recover \$698 in estimated lost interest revenue from advances provided to ARD.**
- 3. Review the results of ARD's overtime and sixth-day workweek compensation analysis and recover any ineligible costs identified.**
- 4. Review the results of ARD's IT equipment and software purchase analysis and recover any ineligible costs identified.**
- 5. Advise ARD to address the report's seven internal control findings.**
- 6. Advise ARD to address the report's nine noncompliance findings.**



SIGAR

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

January 13, 2015

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

Mr. William Hammink
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by ARD, Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Afghan Sustainable Water Supply and Sanitation Project.¹ Crowe Horwath's audit covered \$42,517,360 in expenditures charged to the task order from September 30, 2009 through December 29, 2012. Our contract required the audit to be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$330,105 in questioned costs identified in the report.**
- 2. Recover \$698 in estimated lost interest revenue from advances provided to ARD.**
- 3. Review the results of ARD's overtime and sixth-day workweek compensation analysis and recover any ineligible costs identified.**
- 4. Review the results of ARD's IT equipment and software purchase analysis and recover any ineligible costs identified.**
- 5. Advise ARD to address the report's seven internal control findings.**
- 6. Advise ARD to address the report's nine noncompliance findings.**

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

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-026)

¹ USAID awarded task order EPP-I-05-04-00019-00 to ARD to implement the Afghan Sustainable Water Supply and Sanitation Project. The project was intended to improve the long-term sustainability of potable water supply and sanitation services, improve the hygiene behaviors of poor and vulnerable populations in Afghanistan through a hygiene education campaign, and strengthen local community capacity for water supply management.



ARD, Inc.

Special Purpose Financial Statement

Afghan Sustainable Water Supply and Sanitation (SWSS) Project

For the Period September 30, 2009, through December 29, 2012

(With Independent Auditor's Report Thereon)

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Transmittal Letter

December 11, 2014

To the President and Management of ARD, Inc.
159 Bank Street
Burlington, Vermont 05402

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of ARD, Inc.'s ("ARD") contract task order with the United States Agency for International Development ("USAID") funding the Afghan Sustainable Water Supply and Sanitation ("SWSS") Project.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of ARD, Inc., the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses to the findings have been incorporated into the final report and are followed by auditor's responses, if necessary.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of ARD, Inc.'s SWSS project.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

ARD, Inc. (“ARD”) entered into a cost plus fixed fee contract task order with the United States Agency for International Development (“USAID”) to conduct activities intended to increase access to sustainable sources of clean water for domestic use among Afghanistan’s rural population and to improve the long-term technical, financial, and environmental sustainability of potable water supply and sanitation services. In addition, ARD was tasked with executing activities to improve hygiene behaviors for poor and vulnerable populations in Afghanistan. Included within the scope of the project were technical assistance activities, installation and maintenance of clean water delivery systems for communities, and health and hygiene education for beneficiaries. The project, the Afghan Sustainable Water Supply and Sanitation (“SWSS”) Project, was funded by contract task order number EPP-I-05-04-00019-00, which incorporated an initial ceiling price of \$51,863,898, inclusive of two option periods. Thirteen modifications to the task order were subsequently issued that exercised both option periods and extended the period of performance to December 29, 2012. Over the course of the project, which spanned from September 30, 2009, through December 29, 2012, ARD incurred costs totaling \$42,517,360.

Throughout the project’s period of performance, ARD collaborated with numerous implementing partners, four primary subcontractors, a variety of construction companies and other vendors, and USAID to execute upon the scope of work identified in the contract. As reported in ARD’s final report on the SWSS project dated April 21, 2013, results (unaudited by Crowe) included, but were not limited to:

- Construction of 3,011 wells and 37 piped water systems;
- Financing and construction of 37 public latrine blocks serving market centers, schools, clinics, or other public spaces;
- Assisting 611 communities in their effort to be certified as open defecation free, which requires all households to have access to a hygienic latrine;
- Initiating family health action groups in 952 villages;
- Training of 8,626 women leaders in hygienic behavior who in turn taught 45,362 other women; and
- Contributing to a 65 percent increase in the practice of water treatment and safe storage of water in approximately 80 percent of Afghan homes, based on annual surveys.

The project was concluded in December 2012 and had not been formally closed as of the date of this report.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of ARD’s SWSS project.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Special Purpose Financial Statement

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 accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.



Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of ARD's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether ARD 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.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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 special purpose financial statement.

Scope

The scope of the audit included the period September 30, 2009, through December 29, 2012, for the SWSS project. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Procurement;
- Reporting; and
- Special Tests and Provisions pertaining to changes in key personnel and limitations in subcontracting.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by ARD. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract task order and the primary indefinite quantity contract executed by and between ARD and USAID, the Federal Acquisition Regulation (“FAR”), and the USAID Acquisition Regulation (“AIDAR”) – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, vouchers submitted to USAID for payment, procurements, property and equipment dispositions, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess ARD's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements (“NICRA”) and associated contract restrictions, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both ARD and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. One compliance review commissioned by USAID and executed by a third party was performed and a draft report was issued. Through review of the draft report, no observations that are considered to be direct and material to the SPFS were identified.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified nine findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulting from identified instances of noncompliance. Other matters that did not meet the aforementioned criteria were communicated verbally to ARD.

Crowe also reported on both ARD's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. Six material weaknesses in internal control, one significant deficiency in internal control, and nine instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$330,105 in costs was questioned as presented in **TABLE A** contained herein. Crowe also noted that, due to ARD's submitting costs for reimbursement prior to their being eligible for reimbursement, funds were advanced thus resulting in \$698 in calculated interest lost by the U.S. Government. The interest amount is recommended for payment to the United States Government.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to ARD's financial performance under the contract. Per communications with ARD and USAID, there was one such compliance review conducted. However, the report was never finalized and no preliminary observations were included that are direct and material to the Special Purpose Financial Statement. Crowe, therefore, did not conduct follow-up on corrective action pertaining to any such reports.

Crowe issued an unmodified opinion on the SPFS.



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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2014-01	Allowable Costs: Foreign Currency Conversions	\$17,626	\$17,626
2014-02	Procurement: Competitive Procedures and Reasonable Costs	\$23,347	\$40,973
2014-03	Allowable Costs: Costs Incurred for Overtime and Saturday Pay	\$141,867	\$182,840
2014-04	Allowable Costs: Equipment and Property Purchases and Disposition	\$95,207	\$278,047
2014-05	Cash Management	\$0	\$278,047
2014-06	Excluded Parties List System Searches and Vendor Certifications	\$0	\$278,047
2014-07	Reporting: Evidence of Review and Incomplete Reporting	\$0	\$278,047
2014-08	Procurement: Subcontract Approvals	\$52,036	\$330,083
2014-09	Allowable Costs: Unsupported Transaction	\$22	\$330,105
Total Questioned Costs			\$330,105

Summary of Management Comments

Management provided responses to the audit findings in which management agreed with findings 2014-05, 2014-06, 2014-07, and 2014-09. With regard to finding 2014-01, management agreed with the nature of the finding, but disagreed with the questioned cost amount as there were both under- and overpayments resulting from the foreign currency conversion matter referenced in the finding. Specifically, management asserts that the amount payable to the Government is the net of the under- and over payments rather than the overpayment amount alone. Management disagreed with finding 2014-02 based on their review of a bid matrix and review of the total cost of contract labor, including base compensation, allowances, and fringe benefits. Management also disagreed with findings 2014-03 and 2014-08 based on language contained in the ARD Local Compensation Plan for Afghanistan and management's interpretation that an extension of the contract award provided an implicit approval for an extension to subcontractors' periods of performance, respectively. Management disagreed with finding 2014-04 due to its interpretation that a memorandum addressed to the contracting officer by another USAID representation was reflective of a required contracting officer approval.

References to Appendices

The auditor's reports are supplemented by two appendices - **Appendix A** containing the Views of Responsible Officials and **Appendix B** containing the auditor's rebuttal to management's response.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the President and Management of ARD, Inc.
159 Bank Street
Burlington, Vermont 05402

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of ARD, Inc. ("ARD"), and related notes to the Statement, for the period September 30, 2009, through December 29, 2012, with respect to the Afghan Sustainable Water Supply and Sanitation project funded by contract task order number EPP-I-05-04-00019-00.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix V of Solicitation ID05130083 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 Statement.

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

(Continued)

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by ARD in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and presents those expenditures as permitted under the terms of contract task order number EPP-I-05-04-00019-00, which is a basis accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of ARD, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2014, on our consideration of ARD's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.



Crowe Horwath LLP

October 31, 2014
Washington, D.C.

ARD, Inc.
Special Purpose Financial Statement
EPP-I-05-04-00019-00
For the Period September 30, 2009, through December 29, 2012

	Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
<i>Revenues</i>					
USAID - EPP-I-05-04-00019-00	\$51,863,898	\$42,517,360			4
Total Revenue	\$51,863,898	\$42,517,360			
<i>Costs Incurred</i>					
Direct Costs	\$45,252,396	\$36,591,613	\$159,493	\$170,612	5 8, A, B, C, D, E, F
Indirect Costs	\$4,595,093	\$4,009,338			8
Total Costs	\$49,847,489	\$40,600,951			
Fixed Fee	\$2,016,409	\$1,916,409			
Cost Plus Fixed Fee	\$51,863,898	\$42,517,360			
Balance		<u><u>\$ -</u></u>	\$159,493	\$170,612	6

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

ARD, Inc.
Notes to the Special Purpose Financial Statement
For the Period September 30, 2009, through December 29, 2012

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number EPP-I-00-04-00019-00, Task Order 5, for the Afghan Sustainable Water Supply and Sanitation Project for the period September 30, 2009 through December 29, 2012. Because the Statement presents only a selected portion of the operations of the ARD, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of ARD, Inc. The information in this Statement 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 contract number EPP-I-00-04-00019-00, Task Order 5. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the Code of Federal Regulations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. ARD utilizes the rate in effect by the Standard Charter Bank at the time of a currency conversion. The same rate is utilized until such a time as another exchange of currency is required.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which ARD, Inc. is entitled to receive from USAID for allowable, eligible costs incurred under the contract during the period of performance. Revenue is presented on the accrual basis. Due to a difference between revenue earned and cash receipts from the Government, a reconciliation has been incorporated as Note 8 to the Statement.

Note 5. Costs Incurred by Budget Category

The costs contained in the Special Purpose Financial Statement reflect the contract value contained in USAID-approved EPP-I-00-04-00019-00, Task Order 5, Modification Number 9 issued on August 27, 2011.

Note 6. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. The \$0 fund balance indicates that the amount earned is equal to the actual costs incurred under the award.

Note 7. Currency

All amounts presented are shown in U.S. dollars.

Note 8. SPFS Adjustments

The SPFS was prepared using the accrual basis of accounting, which results in a difference between actual cash payments received from the Government and revenues as presented on the Statement. Audit adjustments were recommended and accepted by Management. The following is a reconciliation of funds received from USAID to the revenue reported on the Statement.

Revenue reported on the Statement:		\$42,517,359
Add:		
*Adjustment due to exchange rate errors	\$14,587	
*Invoice generated after project closeout written off by ARD	37	
Difference in USAID disbursement and ARD November 2013 Invoice	5	
USAID data entry error recording \$64,963 adjustment as \$64,913	50	
Unrecorded adjustment on USAID disbursement log for Invoice 50639846	7,483	
July 2014 refund	2,066	
Less:		
*Funds owed to subcontractor	(430)	
*Indirect costs associated with subcontractor payable	(59)	
Partial reimbursements for invoices 50320647, 50327949, 50335934, 50344385, and 50352589	(4,519)	
USAID-Reported Cash Payments to ARD:		\$42,536,579
Unreconciled Difference:		\$0
* Audit adjustment		

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the September 30, 2009, through December 29, 2012, period of performance. Management has performed their analysis through October 31, 2014.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement¹

Note A. Allowable Costs: Foreign Currency Conversions

Finding 2014-01 identified \$17,626 in questioned costs due to ARD's having conducted foreign currency conversions using incorrect exchange rates that resulted in overcharges to the Government.

Note B. Procurement: Competitive Procedures and Reasonable Costs

Finding 2014-02 identified \$23,347 in questioned costs due to inadequate documentation being available to support the reasonableness of costs incurred for certain subcontractors and vendors.

Note C. Allowable Costs: Costs Incurred for Overtime and Saturday Pay

Finding 2014-03 identified \$141,867 in questioned costs as a result of ARD's having charged to the contract overtime and extended work week compensation paid to local hires, which is prohibited by the terms and conditions of the contract.

Note D. Allowable Costs: Equipment and Property Purchases and Disposition

Finding 2014-04 questions \$95,207 in costs as a result of ARD's not providing evidence of the Contracting Officer's approval for the purchase of certain equipment, property, information technology, and software items, and due to lack of supporting documentation showing that USAID's disposition instructions were followed.

Note E. Procurement: Subcontract Approvals

Finding 2014-08 questions \$52,036 in costs due to ARD having charged the contract greater than the amounts approved by the Contracting Officer for two subcontractors.

Note F. Allowable Costs: Unsupported Transaction

Finding 2014-09 questions \$22 in costs due to a lack of supporting documentation for one labor transaction.

¹ Notes to the 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 Statement.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Management of ARD, Inc.
159 Bank Street
Burlington, Vermont 05402

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

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 ("the Statement") of ARD, Inc. ("ARD"), and related notes to the Statement, for the period September 30, 2009, through December 29, 2012, with respect to the Afghan Sustainable Water Supply and Sanitation Project funded by contract order number EPP-I-05-04-00019-00. We have issued our report thereon dated October 31, 2014.

Internal Control over Financial Reporting

ARD's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period September 30, 2009, through December 29, 2012, we considered ARD's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of ARD's internal control. Accordingly, we do not express an opinion on the effectiveness of ARD's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

(Continued)

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 Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2014-01, 2014-02, 2014-03, 2014-04, 2014-06, and 2014-07 in the accompanying Schedule of Findings and Questioned Costs 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 noted in Finding 2014-08 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

ARD, Inc.'s Response to Findings

ARD, Inc.'s response was not subject 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Restriction on Use

This report is intended for the information of ARD, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Crowe Horwath LLP

October 31, 2014
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Management of ARD, Inc.
159 Bank Street
Burlington, Vermont 05402

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

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 ("the Statement") of ARD, Inc. ("ARD"), and related notes to the Statement, for the period September 30, 2009, through December 29, 2012, with respect to the Afghan Sustainable Water Supply and Sanitation Project funded by contract order number EPP-I-05-04-00019-00. We have issued our report thereon dated October 31, 2014.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of ARD, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, 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 Findings 2014-01, 2014-02, 2014-03, 2014-04, 2014-05, 2014-06, 2014-07, 2014-08, and 2014-09 in the accompanying Schedule of Findings and Questioned Costs.

ARD, Inc.'s Response to Findings

ARD, Inc.'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 results 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 compliance. Accordingly, this communication is not suitable for any other purpose.

(Continued)

Restriction on Use

This report is intended for the information of ARD, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe Horwath LLP

Crowe Horwath LLP

October 31, 2014
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2014-01: Allowable Costs: Foreign Currency Conversions

Material Weakness and Non-Compliance

Criteria: Per 48 CFR Subpart 31.201-2, a cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness; (2) Allocability; (3) Standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances; (4) Terms of the contract; and (5) Any limitations set forth in the Federal cost principles. The regulation further states that, "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."

Per ARD's exchange rate application procedure, the exchange rate is set to the latest rate received from the local bank when converting U.S. dollars to local currency. The rate is then applied to subsequent local currency costs until superseded by the rate received the next time funds are exchanged.

Condition: During testing of 25 transactions in which purchases made in Afghanistan were converted to U.S. dollars, 17 transactions were identified as having utilized an incorrect exchange rate per review of ARD's supporting documentation (i.e., currency exchange data provided by ARD's bank). The result was a \$416 overcharge to the U.S. Government within the sample.

Due to the frequency of the error, an analysis of the full population of foreign currency conversions was conducted. Errors were noted within 37 of the 39 months (1,827 total transactions) in the September 30, 2009, through December 29, 2012, period of performance and resulted in an overcharge to the Government of \$17,626 across the full population.

Questioned costs: \$17,626

Effect: USAID over-reimbursed ARD for costs incurred under the program, which may have impacted the amount of funds available for other purposes or for which ARD could have utilized to deliver additional services.

Cause: ARD personnel did not enter the updated exchange rates into the system in a timely manner. Due to ARD's Quickbooks system's inability to apply the rates retroactively, transactions entered between the date of the actual currency exchange with the bank and the dates that the exchange rates were entered were incorrectly recorded.

Recommendation: We recommend that ARD develop and document a procedure within its month-end closing activities that includes a review of foreign currency conversions and the amounts entered into Quickbooks to ensure that errors are detected timely. We further recommend that ARD refund the Government \$17,626 in overcharges.

Finding 2014-02: Procurement: Competitive Procedures and Reasonable Costs

Material Weakness and Non-Compliance

Criteria: FAR 52.244-5 states, "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."

48 CFR Subpart 31.2 requires that a cost be reasonable to be considered an allowable charge to a Federal contract. To be considered reasonable, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business." The regulation further states:

- (b) What is reasonable depends upon a variety of considerations and circumstances, including—
- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;
 - (2) Generally accepted sound business practices, arm's length bargaining, and Federal and State laws and regulations;
 - (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
 - (4) Any significant deviations from the contractor's established practices.

Per Section 8.2.5 of ARD's procurement handbook, "Prior to signature, the Tetra Tech ARD home office shall review the subcontracts developed and all related materials. The home office shall provide any language that needs to be incorporated into the subcontract, including any applicable AIDAR and FAR-incorporated clauses or language from the prime contract. This is an internal review step without additional USAID review. The [Project Manager] shall communicate home office sign-off."

Section 7.1 of the procurement handbook states that "The [Chief of Party] (or designees) must approve in writing all purchases made by the project office."

Condition: During our review of 30 procurement samples, we identified four instances in which vendor and subcontractor selections resulting from procurement activities were not properly supported. The following table summarizes the four subcontracts and purchase orders in question:

Subcontract / Purchase Order Number	Vendor	Amount Charged to the Contract	Amount Questioned
P010	Jubaili Bros.	\$49,455	\$12,205
P197	Sefatullah Siddiqi	\$16,518	\$8,901
P200	Ahmad Shakeb Abbasi	\$7,183	\$876
P190	RMA Group	\$7,182	\$1,365
TOTALS		\$80,338	\$23,347

Of the four subcontracts and purchase orders, ARD did not produce copies of bids or quotes that resulted in awarding purchase orders P197 and P200 or other documentation that was adequate to support the reasonableness of the costs.

Regarding P010, the procurement process may not have been properly executed. The bid analysis document did not include a comparison of the maintenance service costs, but rather, per ARD, the award was made based on the generator cost only. In addition, when reviewing the quotes, we noted that the vendors were not quoting on the same goods and services. Each vendor quoted on the generator, but a number of vendors provided quotes for only a portion of the services that were awarded. We requested to review a copy of the solicitation document to determine if each vendor was provided the same specifications and information from which to base a quote. However, the solicitation document was not provided. In the absence of the necessary support to determine if the service costs were reasonable, the portion of the purchase that does not pertain to the generator (i.e., the service component) is questioned.

Both P197 and P200 pertained to consultant support for finance and information technology, respectively. Through a comparison of the compensation paid to the vendors to the USAID-approved local compensation plan and review of the time worked on the project, a salary baseline of \$2,539 per month for P197 and \$1,819 per month for P200 was calculated. The difference between actual charges and the calculated baselines is questioned.

Regarding P190, the purchase was for generator maintenance services. During our review of the procurement support, we noted that one vendor - Afghan Hope - was not awarded the contract and the file support did not specify why the vendor was excluded or otherwise unsuccessful. Afghan Hope quoted a price of AFA 1,053,300 while the successful bidder (RMA Group) quoted AFA 1,295,472. Afghan Hope was, therefore, approximately 19 percent less expensive than RMA Group. The RMA costs, in the absence of additional support indicating why Afghan Hope was not issued the award, are considered to be unreasonable. Nineteen percent of the \$7,182 in RMA Group costs charged to the contract is questioned.

In addition to the aforementioned issues, we noted a series of exceptions with regard to documentation supporting the execution of ARD's established procurement practices. ARD utilizes negotiation memoranda to document the results of the procurement process and reasonableness of the costs. The members of the procurement committee then sign the memoranda certifying that the process was followed. Negotiation memoranda for two of the 17 subcontracts tested were unsigned and considered to be unreliable.

In six of 13 procurements of goods and services exceeding \$100,000 in value, evidence of home office review and approval was not provided. In addition, two of 30 procurements (P197 and P200) tested did not contain evidence of review and approval by the Chief of Party (COP), Deputy Chief of Party (DCOP), or the individual afforded power of attorney to approve contracts for ARD in Afghanistan. Per discussion with ARD, the DCOP was designated to approve purchases on behalf of the COP and power of attorney was afforded to one individual. We noted that the Director of Finance and Administration signed off on both purchases; however, a policy or memorandum granting the Director such authority was not produced upon request. In one other instance, a copy of the executed purchase order was not provided (P190). Three of the four instances of noncompliance were accompanied by errors in the application of ARD's designed review and approval process.

Questioned costs: \$23,347

Effect: The Government may have been overcharged as a result of the procurement errors and omissions.

Cause: ARD lacked a system to ensure that procurement files were complete and their full contents retained for the duration of the records retention period.

Recommendation: We recommend that ARD implement a process to periodically review and evaluate the contents of procurement files; to confirm the results of procurement activities and decisions; and to ensure that reviews and approvals of procurement actions are occurring as required by the policy. We further recommend that ARD either return the amount of \$23,347 to the Government or provide additional documentation to USAID that supports the reasonableness of costs incurred for the referenced vendors and subcontractors.

Finding 2014-03: Allowable Costs: Costs Incurred for Overtime and Saturday Pay

Material Weakness and Non-Compliance

Criteria: Section F.7 of the contract task order states the following:

A six-day (6) workweek is authorized for the contractor's and its subcontractor's overseas personnel with no premium pay. No overtime or premium pay is authorized for other personnel under this Task Order.

Condition: During testing of 107 transactions, we identified 26 batch labor transactions containing 267 unique wage payments for 63 individuals. Of the 267 wage payments, 100 percent of them included charges to the contract for overtime. In each instance, the employee was paid time and a half for hours worked in excess of 40 hours per week. The amount of the overtime differential totaled \$47,269.

In addition, we noted that each payment transaction included charges for a sixth day worked (Saturday). The contract was charged \$94,598 for the individuals' Saturday work. The individuals were neither employees of ARD nor its subcontractors. Per discussion with USAID and review of the contract task order, a formal modification to the task order would be required to extend overtime and/or six-day workweek privileges to locally-hired contract personnel. Such a modification was not issued. Therefore, the referenced individuals did not qualify for Saturday work as authorized in the task order.

Questioned costs: \$141,867

Effect: ARD overcharged the federal government for the labor performed under the SWSS contract. As a result of the overcharges, funding was not available for ARD to perform additional tasks that align with the overall objectives of the contract or to employ additional individuals to work standard workweeks.

Cause: ARD interpreted the approval of a six-day workweek within the local compensation plan to override the restriction in the task order. ARD also interpreted the local labor law to require overtime compensation and, therefore, charged the costs to the contract.

Recommendation: We recommend that ARD conduct an analysis to determine if additional overtime and/or sixth work day compensation was paid to local hires and charged to the award. The results of the analysis should then be submitted to USAID for review and issuance of an allowability decision. We further recommend that ARD reimburse the Government the \$141,867 associated with the overtime and premium pay charges.

Finding 2014-04: Allowable Costs: Equipment and Property Purchases and Disposition

Material Weakness and Non-Compliance

Criteria: Per Section H.7 of the indefinite quantity contract upon which the task order was issued, "The Contractor shall request authorization from the Government to purchase equipment and/or resources for each task order that is issued. As part of this requirement, the Contractor shall provide a list giving a description of every item, quantity of units, price, function and whether it is a new/used item."

Per Section 13.2.1, "Receiving Procedures for Local Procurement", of the Local Procurement Handbook, a receiving report is required to be completed to demonstrate that the item ordered was received, aligned with the order specifications, and arrived in good condition.

USAID issued disposition instructions within Disposition Instruction OAA-13-P-0018 identifying the receiving parties for certain items purchased under the contract.

Condition: During our testing of 21 equipment and property selections, we identified four items for which evidence of the Contracting Officer's approval to purchase was not produced. The total amount of the four items is \$6,151. The table, below, summarizes the exceptions:

Item No.	Unique ID#	Detailed Description	Qty	Unit Price	Amount in Question
4	859	Copier, Canon iR3245, with Finisher-S1	1	\$ 9,751	\$1,763
5	462	Printer, HP Laserjet 4700 DN	1	\$ 2,300	\$2,300
7	64	Computer, Laptop, HP ProBook 4510s	1	\$ 1,068	\$1,068
9	11	Computer, Laptop, HP Pavilion dv6-1105ee	1	\$ 1,020	\$1,020
TOTAL					\$6,151

During review of the same 21 equipment and property selections, we identified six items that were disposed of and for which ARD could not produce evidence showing that the receiving entity specified by USAID received the items. Due to the items no longer being within the possession of the ARD SWSS team, they were also not subject to physical inspection. The total value of the six items was \$7,703.

Item No.	Unique ID#	Detailed Description	Qty	Unit Price
10	A-003	Personal Protective Equipment	1	\$546
14	A-001	Personal Protective Equipment	1	\$546
15	A-011	Personal Protective Equipment	1	\$546
16	1354	Computer laptop, Dell Latitude E6400	1	\$1,050
17	1785	Television, Samsung LCD, 40"	1	\$1,150
20	3053	Unit NGTVR Mobile Handsets	1	\$3,865
TOTAL				\$7,703

In addition, ARD did not obtain written Contracting Officer approval for the purchase of information technology (IT) and software items. ARD obtained a recommendation from the USAID Office of the Chief Information Officer for the Bureau for Management, Business Consulting, and Client Services to proceed with purchasing certain IT and software items. However, the Contracting Officer did not approve ARD's request to purchase the items or otherwise accept the recommendation in writing. The amount of software purchases which require approval per review of ARD's inventory is \$81,353.

Other items included within the request to USAID included network cabinets, ethernet cables, conduit ducts, printers, and various IT equipment items (e.g., laptops). Due to some of these items having been approved through the project budget approval process with the initial award (total Computer/IT Equipment referenced was \$252,493) and lack of detail in the budget stating the specific types and manufacturers of printers and laptops, one cannot distinguish between the specific items that were pre-approved with the budget and those that were subject to evaluation and referenced in the recommendation. Thus, there may be an additional \$166,493 in costs that are ineligible.

Lastly, ARD was unable to locate receiving documents for four of 21 sample selections. Costs associated with the four items were not questioned as a result of the missing receiving support due to there having been additional documentation available to support their existence and having been purchased and used on the project.

Questioned costs: \$95,207

Effect: ARD may have purchased items that the Government considered to be unnecessary or unreasonably priced. In the absence of a receiving report demonstrating that the procured items were received and reviewed, the risk of costs being charged to the award for items not received or for items in poor condition is increased.

Regarding the items for which disposal records were unavailable, the Government may have been required to fund purchases in the future for other projects due to items expected for transfer not having reached the desired recipients. Alternatively, equipment and property funded by the Government may be in use by entities not intended to receive Federal support.

Cause: ARD interpreted the USAID CIO's approval letter to be reflective of the Contracting Officer's approval as well. ARD could not locate the Contracting Officer's approvals for the four items referenced. It is unclear why ARD could not locate the supporting documentation.

Recommendation: We recommend that ARD refund the Government \$95,207 or provide documentation indicating that the Contracting Officer provided approval for the purchase of the referenced equipment and property items and demonstrating that the six items that were disposed of were provided to the intended recipients.

We further recommend that ARD conduct an exercise to bifurcate the items that were recommended for purchase from those that were approved for purchase within the budget. The results of the exercise should be submitted to USAID for review such that USAID may determine if additional costs should be refunded as a result of IT and software items having been purchased that may have been unnecessary.

We recommend that ARD conduct a review of its recordkeeping process and establish a process to periodically review the contents of equipment files and ensure that receiving support is retained.

Finding 2014-05: Cash Management

Non-Compliance

Criteria: Pursuant to FAR 52.216-7, reimbursable costs consists of those have been paid by cash, check, or other form of actual payment for items or services purchased directly for the contract and, when the contractor is not delinquent in making payments to subcontractors, costs that have been incurred but not necessarily paid provided that payments will be made in accordance with the terms and conditions of the subcontract and ordinarily within 30 days of submission of the contractor's payment request to the Government.

Condition: ARD invoiced the Government for costs that were not paid at the time of submission or within 30 days of the submission. The costs pertained to retainer fees for construction services that were withheld from the vendor pending completion of the project. Pursuant to the contracts with the subcontractors, retainers are not required to be paid until the work is completed. The costs were shown as credits on the vouchers and payments to the vendors were rendered at the end of the project. Therefore, the costs were ineligible for reimbursement at the time of submission. The following table details the specific transactions and amount of time that payment was advanced.

Vendor	Amount of retainer	Payment date of vendor	Reimbursement request date	Amount of Time Payment was Advanced	Interest rate applied	Interest charge per Treasury calculation
Wrono	\$10,660.90	9/29/2011	11/10/2010	10 months and 13 days	3.125%	\$ 293
Sarhad	\$10,420.40	3/30/2012	10/7/2011	5 months and 20 days	2.500%	\$ 124
Wrono	\$10,200.80	9/29/2011	11/10/2010	10 months and 13 days	3.125%	\$ 281
Total Interest Payable:						\$ 698

Questioned costs: None. However, \$698 in imputed interest has been calculated.

Effect: The Government may have lost interest income by pre-funding expenses that were not yet eligible for reimbursement.

Cause: The submission resulted from an error in that the gross amount of the invoice rather than the net paid to the vendor was entered in the financial accounting system, which is the basis of billing.

Recommendation: We recommend that ARD conduct a review of the remaining fixed fee subcontracts to identify whether other charges were submitted prematurely. We further recommend that ARD remit to the Government the \$698 in imputed interest.

Finding 2014-06: Excluded Parties List System Searches and Vendor Certifications

Material Weakness and Non-Compliance

Criteria: As per FAR 52.209–6(b), *Protecting the Government's Interest When Subcontracting With Contractors Debarred, Suspended, or Proposed for Debarment*, "The Contractor shall require each proposed first-tier subcontractor, whose subcontract will exceed \$30,000, to disclose to the Contractor, in writing, whether as of the time of award of the subcontract, the subcontractor, or its principals, is or is not debarred, suspended, or proposed for debarment by the Federal Government.

Per Section 6 of the *Local Procurement Handbook*, which presents the internal ARD requirements pertinent to negotiating procurements, "All subcontractors and vendors must be checked to see if they appear on the U.S. Government's Excluded Parties List System (EPLS) and if they show up on either of the two Anti-Terrorist Financing lists. A print out showing the date of the online check must be put in the files."

Condition: During our testing of 30 total procurements, we identified 10 instances in which ARD conducted a search of the Excluded Parties List System (EPLS) after the awarding of subcontracts and/or purchase orders. In another 14 instances, evidence of an EPLS search was not provided.

Of the 30 procurements tested, 19 contracts and purchase orders were valued at greater than \$30,000. We identified 16 of the 19 that did not contain the required vendor certification regarding its suspended or debarred status. We did not identify any parties that were suspended or debarred during our independent search of the System for Award Management (the system implemented by the Government to replace EPLS). Accordingly, no costs are questioned.

Questioned costs: None

Effect: ARD may inadvertently award Federal funds to entities that are suspended, debarred, or otherwise excluded from receiving Federal funds.

Cause: ARD incorporates standard terms and conditions into its contracts and considered the provisions to be adequate for purposes of demonstrating compliance with suspension and debarment regulations. The terms and conditions were not reviewed and modified to require vendors to certify as to their suspended or debarred statuses.

Recommendation: We recommend that ARD modify its standard contract language and supporting forms to require an affirmative certification/response from vendors regarding their suspended or debarred status. We further recommend that ARD implement and document a procedure requiring management to periodically review the procurement files' contents to ensure that EPLS searches are being conducted timely and that the files are complete.

Finding 2014-07: Reporting: Evidence of Review and Incomplete Reporting

Material Weakness and Non-Compliance

Criteria: Section F.5(a) states that monthly reports shall be provided to the Contracting Officer Technical Representative within five days after the end of each month and shall also include the Contractor's accrued monthly expenditures.

Section F.5(b) states that quarterly reports shall contain summary descriptions of each completed subproject that will include: a general description of the system, completion date, cost, location (GPS coordinates), the numbers of homes and population being served, social impacts, revenue collection and usage agreements, and an operations, maintenance and cost recovery plan.

ARD established a process that requires the Project Manager or Senior Technical Advisor to review and approve reports prior to submission to USAID to ensure the accuracy and completeness of reports.

Condition: During review of 11 monthly, quarterly, annual, and final reports, documentation indicating that the Project Manager (PM) or Senior Technical Advisor (STA) reviewed and approved the reports prior to submission to USAID was not provided.

Of the 11 reports tested, one was submitted late and three contained omissions. The monthly report for the month ended November 30, 2009, was submitted on December 7, 2009 - two days after the submission deadline. We also noted that three reports did not contain certain required data elements. Specifically, the quarterly reports for the periods ended March 31, 2010, December 31, 2010, and November 30, 2009 did not include the GPS coordinates/locations of each subproject.

Questioned costs: None

Effect: USAID may not have received the information necessary for the Agency to monitor the project to the desired extent. In addition, in the absence of managerial reviews of reports, errors and omissions may go undetected and the risk of noncompliance is enhanced.

Cause: One report was late due to the internal review cycle taking longer than anticipated. It is unclear why the GPS locations were not provided.

Recommendation: We recommend that ARD incorporate a process that requires senior management to periodically review documentation supporting program reports to ensure that the PM and/or STA are appropriately documenting their report reviews and that reports are both accurate and submitted by the required deadlines.

Finding 2014-08: Procurement: Subcontract Approvals

Significant Deficiency and Non-Compliance

Criteria: The USAID Contracting Officer's letters containing the Government's consent for ARD to subcontract with GardaWorld included the following language:

The foregoing consent is contingent on there being sufficient funds for the subcontract, and that the total estimated cost of the contract will not be exceeded and on the explicit understanding that all other terms and conditions remain unchanged.

FAR 52.244-2 includes the following provisions, which apply to the time-and-materials GardaWorld subcontracts and to changes and modifications thereto.

Subcontract means any contract, as defined in FAR Subpart 2.1, entered into by a subcontractor to furnish supplies or services for performance of the prime contract or a subcontract. It includes, but is not limited to, purchase orders, and changes and modifications to purchase orders. If the Contractor does not have an approved purchasing system, consent to subcontract is required for any subcontract that— (1) Is of the cost-reimbursement, time-and-materials, or labor-hour type.

Condition: ARD invoiced the Government for greater charges than permitted by USAID on two of three GardaWorld subcontracts. The table below summarizes the approved amounts, per the Contracting Officer's ("CO") consent documents and the actual costs incurred per the financial records. In addition, ARD extended the period of performance for the subcontracts, which required modifications to the underlying subcontracts. Per the CO's consent documents, the approval to subcontract is valid up to the estimated cost appearing in the consent letters and is valid in so far as the terms and conditions of the subcontracts remain unchanged.

Vendor	Service Type	Approved Subcontract Amount	Actual Costs Incurred per Financial Report	Comments
GardaWorld	Risk Management Consulting (RMC)	\$182,536	\$213,082	\$30,546 in base costs incurred above approved estimated cost limit
GardaWorld	Transportation and Logistics Services	\$179,207	\$200,697	\$21,490 in base costs incurred above approved estimated cost limit

Questioned costs: \$52,036

Effect: The Government was charged for professional services that the Government may have considered unnecessary or unreasonable.

Cause: The SWSS project's period of performance was extended to December 29, 2012, and ARD considered the extension of the overall project to be an implicit approval to extend GardaWorld's subcontracts for services as the subcontracts were tied to the initial periods of performance.

Recommendation: We recommend that ARD obtain clarification from USAID regarding those instances requiring consent to subcontract and, if necessary, issue a memorandum to staff clarifying the requirements for obtaining consent, including instances pertaining to modifications. We further recommend that ARD refund the Government \$52,036 or provide documentation showing that the contracting officer approved the changes in the terms and conditions of the subcontracts and authorized additional costs to be incurred.

Finding 2014-09: Allowable Costs: Unsupported Transaction

Non-Compliance

Criteria: Per 48 CFR Subpart 31.201-2, a cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness; (2) Allocability; (3) Standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances; (4) Terms of the contract; and (5) Any limitations set forth in the Federal cost principles. The regulation further states that, "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."

Condition: ARD did not provide supporting documentation for one labor cost adjustment amounting to \$22.

Questioned costs: \$22

Effect: The Government may have been charged for time and effort that was not allocable to the SWSS project.

Cause: ARD could not locate documentation to support the charge.

Recommendation: We recommend that ARD reimburse the Government for the \$22 in unsupported costs.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Per discussion with ARD, Inc. and USAID, one compliance review had been conducted over the Afghan Sustainable Water Supply and Sanitation Program. The report did not include any matters that were direct and material to the Special Purpose Financial Statement and USAID had not rendered a final disposition regarding the matters noted within the review report and requiring corrective action. Therefore, Crowe Horwath did not conduct procedures specific to identifying and evaluating whether ARD adequately implemented corrective action as pertaining to prior findings and observations.

Appendix A: Views of Responsible Officials



December 3, 2014

Eric Russell
Crowe Horwath LLP
13525 G Street NW, Suite 500
Washington, DC 20005

Re: ARD Inc. Management Response to Crowe Horwath LLP Draft Audit Report Concerning the Special Purpose Financial Statement of ARD, Inc. for the Period September 30, 2009 through December 29, 2012 With Respect to Contract No. EPP-I-00-04-00019-00 Task order EPP-I-05-04-00019-00

This letter provides the management response of ARD, Inc. ("ARD"), a wholly owned subsidiary of Tetra Tech Inc., to the undated draft audit report issued by Crowe Horwath LLP ("Crowe"), on behalf of the Special Inspector General for Afghanistan Reconstruction ("SIGAR"). That report was prepared in connection with Crowe's audit of Task Order EPP-I-05-04-00019-00 performed by ARD under U.S. Agency for International Development ("USAID") Contract No. EPP-I-00-04-00019-00 Task Order EPP-I-05-04-00019-00 between 2009 and 2012.

Below are management responses to the nine findings contained in the draft audit report.

Finding 2014-01: Allowable Costs: Foreign Currency Conversions

Management Response

ARD utilizes QuickBooks accounting software in the financial management of field offices. QuickBooks, while containing the functionality to account for foreign currency transactions, only allows exchange rates to be entered in a hard edit of expenses. Field office staff apply the applicable exchange rate at the time the expense is recorded. While ARD strives to apply current exchange rates to all foreign currency transactions by applying the most current rate received in exchange, there will inevitably be differences due to timing and balances of foreign currency left on hand at the time of subsequent transfers.

Knowing this, ARD makes its best effort to review transactions and insure that exchange rates are applied to transactions based on exchange rate received and that they are applied in a consistent manner. Over the life of a contract it is assumed that the net effect is minimal.

That said, ARD accepts that there are times when discrepancies occur and for the most part, accepts this finding. The overage as calculated by Crowe Horwath is \$17,626. The undercharge is \$2,732. ARD accepts the net of these amounts which is \$14,894.

Finding 2014-02: Procurement: Competitive Procedures and Reasonable Costs

Management Response

There are four procurements for which costs were questioned relative to backup provided during the audit. We do believe that the invoiced costs are reasonable, allowable and allocable under the terms of the contract. Specific to the questioned PO's, we provide the following additional comments related to the identified items.

P0010

Attached please find the bid matrix documenting the selection criteria for the purchase order. In this case, the procurement was for a generator and the company that was awarded the purchase order for the generator submitted the lowest price. Jubaili Brothers also provided in their quote additional services and equipment related to the installation of the generator. These services and items were not quoted by the other bidders for this procurement, however these items were required for installation and would have been procured from either the generator supplier or separately procured. In this case, the ancillary items were procured from the generator supplier with the best price. The award was made to the lowest bidder for the requested item.

P0197 and P0200

These procurements were personal services contracts. The rate that was included in the contract included costs for the services provider's fringe benefits and ancillary costs. The rate for the IT services works out to a little less than \$140/day and for the financial services a little less than \$200/day. While these rates are a bit higher than the FSN scale, the rate is a total wrap rate that includes hazard pay and fringe benefits. The rates are reasonable for these types of services provided on a short term temporary basis.

P0190

P0190 was issued when the winning bidder of P0185 was unable to comply with the terms of the purchase order. ARD agrees that the file does not indicate why a firm other than the second lowest bidder was selected when the procurement was re-awarded.

Relative to addressing the auditor's recommendation to implement a process for periodic review of procurement files, we agree and subsequent to the completion of this project, ARD instituted a new policy whereby when staff travel to visit a field project, they are to devote a portion of their time to review of files. This includes review of procurement and inventory files as well as HR and accounting files. A key part of the review is to verify that checklists and associated required information is included. If information is missing they would flag it and report it to the project implementation team, and the Home Office Internal Compliance Committee and they and the project implementation team would work with the field office staff to take corrective action. This policy and practice will help to improve completeness of procurement files

Finding 2014-03: Allowable Costs: Costs Incurred for Overtime and Saturday Pay

Management Response

ARD submitted its local compensation to USAID for Approval on April 25, 2010. The compensation plan included the following clear statement related to a 6 day work week. Excerpt of this statement is noted below:

The ARD/SWSS Project is authorized to pay a maximum of 6 days per week for work actually performed on day 6. For project standard workweek of Sunday through Thursday, Friday is a non-workday for all staff; Saturday is therefore counted as day 6 of the workweek for which additional pay may be authorized.

The local compensation plan was approved on June 3, 2010. A copy of the CO approval of the compensation plan is attached. This approval did include a number of conditions which document that the plan was reviewed in detail, but did not equivocate that a 6 day work week was not approved. Therefore a 6 day work week was approved.

Relative to payment of overtime, Afghan law requires payment of overtime in cases where the workweek exceeds 40 hours. Relevant sections of Afghan labor law Presidential Decree No: 94, dated 27/10/1385 (17 January 2007) on Endorsement of Afghanistan Labor Law are copied below

Overtime Work

Article 38:

- (1) Work done outside the ordinary hours of work is considered to be overtime,

Overtime

Article 67:

- (1) An hourly wage for overtime is paid 25% more than the official working hour rate on ordinary days and 50% more than the hourly rate on off days (weekend or holidays).

Approval of a 6 day work week required payment of Overtime. Overtime is required to be paid pursuant to Afghan labor law.

We respectfully disagree with the recommendation contained in the audit report.

Finding 2014-04: Allowable Costs: Equipment and Property Purchases and Disposition

Management Response

Relative to the IT equipment approval, ARD followed the ADS Chapter 548 review process for IT components with a system value over \$100,000. We received approval of our plan via a memo written by the USAID Chief Information Officer approving the procurement with a memo to the COTR through the Contracting Officer. ARD and the Contracting Officer were copied on this submission. Since the memo was written effectively through and for the Contracting Officer this for all intents and purposes constitutes approval of these items and we proceeded as such.

The items that were questioned for disposition are missing written receipt documentation. However there is no indication that the items were not provided to the appropriate recipient.

Relative to addressing the auditor's recommendation to implement a process for periodic review of its recordkeeping and equipment files, we agree and subsequent to the completion of this project, ARDTetra Tech instituted a new policy whereby when staff travel to visit a field project, they are to devote a portion of their time to review of files. This includes review of procurement and inventory files as well as HR and accounting files. A key part of the review is to verify that checklists and associated required information is included. If information is missing they would flag it and report it to the project implementation team and the Home office Internal Compliance Committee and they and the project implementation team would work with the field office staff to take corrective action. This policy and practice will help to improve completeness of procurement files

Finding 2014-05: Cash Management

Management Response

The system was set up to book the subcontractor invoice in full to the contract but withhold the retention until completion. In retrospect, the two payments could have been booked separately. ARD agrees with this finding.

Finding 2014-06: Excluded Parties List System Searches and Vendor Certifications

Material Weakness and Non-Compliance

Management Response

The standard subcontractor certifications have been updated to include this recommendation.

Finding 2014-07: Reporting: Evidence of Review and Incomplete Reporting

Management Response

A project evaluation and estimate at completion process has been put in place effective on all projects as of March 2014. This process is an internal tool that is used by the COP and Home Office management team to evaluate assessments of scope, schedule and risk areas of each project. This review process is managed by the sector director for the area that is managing the contract.

Finding 2014-08: Procurement: Subcontract Approvals

Management Response

Task Order contract modification number 12 extending the period of performance of the contract mandated continuation of risk management and logistics services that were provided by Garda World. These services were security related services for transport of staff and guarding of facilities. Extension of the prime contract required extension of these services.

Finding 2014-09: Allowable Costs: Unsupported Transaction

Management Response

The backup for the \$22 adjusting journal entry could not be located in the files returned from the field. ARD accepts this finding.

Your consideration of the above management responses is appreciated. Please follow up with any further questions or clarifications that you may have.



Sam Nelson

Director of Contracts

Attachments: (1) P0010 Bid Matrix
(2) Letter OAA-ARD-2010-00118 dated June 3, 2010

ARD/SWSS Bid Analysis Summary Small Procurement Office Generator

Requisition no. 199-112 Prepared by: Michael W. Kidd			Vendor											
			Jubah Bros		Aimed Machinery Ltd			Asia Trade & Commodities Ltd			Sinig Utan Ikhlas			
Description of Item/Service	Qty	Unit	Unit Price	Total	USD	Unit Price	Total	USD	Unit Price	Total	USD	Unit Price	Total	USD
250KVA Generating Set 20 KW standby rating	1	EA	41,210	\$	41,210.00	41,500	\$	41,900.00	52,910	\$	52,910.00	42,000	\$	42,000.00
Weatherproofing	1	EA		\$		800	\$	800.00		\$			\$	
Automatic Transfer switch 40 Amps	1	EA		\$			\$			\$			\$	
Trenching	30	Meters	20	\$	600.00		\$			\$			\$	
Power Cables 4mm x 20mm	100	Meters	10	\$	1,000.00		\$			\$			\$	
Fuel Water Separator	1	EA	500	\$	500.00	500	\$	500.00		\$			\$	
Installation Material supplies				\$	200.00		\$			\$			\$	
Transportation				\$	250.00		\$			\$			\$	
Labor and material overspending				\$	100.00		\$		450	\$	450.00		\$	900.00
Grand Total (USD)					47,650			43,200			53,810			42,900

Award Selection/Justification

Recommended Vendor

Lowest Offer Comparable Product/Service	<input checked="" type="checkbox"/>
Technically Superior Product/Service	<input type="checkbox"/>
Availability/Delivery Schedule	<input type="checkbox"/>

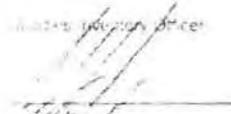
Selection Criteria

Other Justification or Explanation for Selection: Selection based upon lowest pricing for comparable products, well-established vendor and service provider. In addition to previous quality of goods and services received by ARD projects, in assisting the project in evaluating generator capacity requirements for this procurement the Senior Electrician U.S. Army Camp Eggers, Kabul recommended highly considering lot purchase from Jubah Bros. It is reputable service and knowing the vendor had already been identified for solicitation of bids.

Approval

Name: Arwad Sultan

Position Title: Assistant Director

Signature: 

Date: 25 November 2009

Approval

Name: Sayed Feroz

Position Title: Senior Logistics Officer

Signature: 

Date: 25 November 2009

Approval

Name: Michael W. Kidd

Position Title: Director Finance/Administration

Signature: 

Date: 25 November 2009



USAID | AFGHANISTAN

FROM THE AMERICAN PEOPLE

June 3, 2010

CAA-ARD-2010-00118

Mr. Michael W. Kidd
ARD Inc.
Afghan Sustainable Water Supply &
Sanitation (SWSS) Project
House 105, Afghana Street
Kabul, Afghanistan
Email: m Kidd@swss-af.com

Reference: ARD Letter No. SWSS-A068 dated April 28, 2010
Contract Number EPP-I-00-04-00019; Task Order # 05
Sustainable Water Supply and Sanitation (SWSS) Program

Subject: Approval of the Local Compensation Plan dated April 25, 2010

Dear Mr. Kidd:

This is in response to your letter referenced above requesting the approval of ARD's Local Compensation Plan (LCP) under the above referenced Task Order.

Contracting Officer's approval is hereby provided to SWSS's Local Compensation Plan, dated April 25, 2010 and to the salary setting procedures included therein to be employed under this Task Order. ARD shall also comply with the following conditions:

1. ARD shall establish fringe benefits for long term Cooperating Country Nationals (CCNs) in accordance with its company's policies and prevailing local practices in Afghanistan. Further, ARD should observe the limitation imposed by the USG Local Compensation Plan.
2. ARD does not need to request the Contracting Officer's approval for salaries of long term non-key CCNs personnel. For future reference and audit purposes, ARD shall keep in its file complete documentation on the determination of individual daily rates/salaries of its staff. Periodic file reviews to ensure compliance will be conducted by USAID and/or its designated representative.
3. In the future, should there be any additional Contract Labor Categories not covered by the SWSS's LCP dated April 28, 2010, ARD shall amend the LCP to include the changes and seek Contracting Officer's prior approval for the revised SWSS's LCP.
4. ARD will seek a resolution with the Contracting Officer for the three outstanding issues notwithstanding this approval which are: (i) provision of lunch to employees, (ii) provision of transport to male employees and (iii) hazard pay that exceeds USG FSN10/6 for current employees.

Should you have further questions, please contact Joseph Tembo at jtembo@usaid.gov or the undersigned at areichert@usaid.gov.

Sincerely,


Avera Reichert
Contracting Officer

Cc: COTR/AI COTR; Gul Afgan Saleh; Nino Nadiradze

U.S. Agency for International Development
Great Massoud Road
Kabul
Afghanistan

Tel: (202) 215-6288
Fax: (202) 215-6288 ext. 4162
http://www.usaid.gov/locations/asia/near_east/afghanistan

Appendix B: Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of Tetra Tech ARD ("ARD"), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information, documentation that had not previously been reviewed and considered, or adequate support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response provided by ARD.

Finding 2014-01

ARD agreed with the finding, but asserted that the amount payable to the Government is \$14,894, the difference between the \$17,626 that was overcharged to the Government and \$2,732 that was not billed or recorded to the project financial records as a result of the foreign currency conversion errors. The questioned cost amount presented within the finding remains unchanged due to its representing the amount of the overpayment resulting from noncompliance based on costs charged to the award and submitted to the Government to date. Consistent with the requirements *Government Auditing Standards*, the questioned cost amount reflects the amount of costs incurred and reimbursed that were in violation of the applicable compliance requirements.

Finding 2014-03

Crowe reviewed the information provided by ARD within the response. We also reviewed the task order and previous consultation with USAID to obtain the Contracting Officer's perspective and interpretation of any conflicting requirements and information. We noted that the task order's terms and conditions were not modified by the Government with respect to the requirements pertaining to overtime and extended work weeks. Accordingly, the provisions of the task order as pertaining to costs that may be charged to the Government were unchanged and the finding remains unchanged.

We have not and do not offer an opinion with respect to the legality of ARD's argument; however, we note that certain costs may be required to be paid for ARD to comply with legal requirements though the same charges may be unallowable under the provisions of the contract. Pursuant to Title 48, Subpart 31.2 of the Code of Federal Regulations, costs are allowable only when the cost complies with the terms of the contract.

Finding 2014-08

Noting ARD's response stating that the twelfth modification to the task order mandated the continuation of risk management and logistics services that were provided by Garda World, Crowe re-reviewed the modification. Per our review of both pages of the modification, the Government did not expressly mandate the continuation of any services. Rather, the period of performance of the contract was extended. Reference was not made to any subcontracts and language was not present indicating that previous conditions imposed by the Contracting Officer within various subcontractor consent documents were waived or otherwise modified. Therefore, the finding remains unchanged.

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

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- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
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