

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 19-27 Financial Audit

USAID's Technical Assistance Provided to the Afghan Ministry of Public Works: Audit of Costs Incurred by Wood Environment & Infrastructure Solutions Inc.

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



MARCH
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On August 2, 2014, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee contract to AMEC Foster Wheeler Environment & Infrastructure Inc. (AMEC) to give technical assistance to the Afghan Ministry of Public Works. The purpose of the contract was to improve the management, financing, and efficiency of the country's roads. The initial period of performance was August 3, 2014, through August 2, 2015, with an estimated cost of \$21,366,222. USAID modified the contract nine times, increasing the obligated amount to \$25,486,058 and extending the period of performance through August 2, 2017. On April 16, 2018, AMEC changed its name to Wood Environment & Infrastructure Solutions Inc. (Wood). Modification 9 updated the contract to reflect the name change.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$12,979,139 in costs and fixed fees that Wood reported from January 1, 2016, through August 2, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Wood's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Wood has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Wood's Special Purpose Financial Statement (SPFS). See Crowe'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, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2019

USAID's Technical Assistance Provided to the Afghan Ministry of Public Works: Audit of Costs Incurred by Wood Environment & Infrastructure Solutions Inc.

SIGAR 19-27-FA

WHAT THE AUDIT FOUND

Crowe identified one significant deficiency and two deficiencies in Wood's internal controls, and three instances of noncompliance with the terms and conditions of the contract or applicable regulations. For example, Crowe noted that Wood did not perform a reasonable cost analysis for a contract to purchase office supplies. Although the contract was initially for \$2,500 in August 2014, Wood increased the contract amount to \$19,000 over the next 12 months. Crowe determined that Wood did not ensure that it had obtained the most advantageous price for the federal government. During the period under audit, the government reimbursed Wood \$5,468 for a portion of this procurement.

Because of the internal control deficiencies and instances of noncompliance, Crowe identified \$11,718 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Reasonable Cost	\$0	\$5,468	\$5,468
Unallowable Costs – Travel	\$0	\$1,490	\$1,490
Incomplete Inventory Records	\$0	\$4,760	\$4,760
Totals	\$0	\$11,718	\$11,718

Crowe identified one prior audit recommendation related to Wood's management of certain property items that could be material to the SPFS. Crowe concluded that Wood had taken adequate corrective action on the recommendation. However, during this audit, Crowe tested inventory records and found that they were not current or complete for items that had been disposed of at the end of the period of performance. Crowe included this finding in the current audit.

Crowe issued an unmodified opinion on Wood's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contract officer at USAID:

1. Determine the allowability of and recover, as appropriate, \$11,718 in questioned costs identified in the report.
2. Advise Wood to address the report's three internal control findings.
3. Advise Wood to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 27, 2019

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by Wood Environment & Infrastructure Solutions Inc. (Wood) under a U.S. Agency for International Development (USAID) cost-plus-fixed-fee contract to give technical assistance to the Afghan Ministry of Public Works.¹ The purpose of the contract was to improve the management, financing, and efficiency of Afghanistan's roads. Crowe's audit covered \$12,979,139 in costs and fixed fees that Wood reported from January 1, 2016, through August 2, 2017. Our contract with Crowe required that the audit be performed in accordance with generally accepted government audit standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible contract officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$11,718 in total questioned costs identified in the report.**
- 2. Advise Wood to address the report's three internal control findings.**
- 3. Advise Wood to address the report's three noncompliance findings.**

The results of Crowe's audit are discussed in detail in the attached report. We reviewed Crowe'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 Wood's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Wood's internal control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and conclusions expressed in it. However, our review disclosed no instances where Crowe 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 the agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-133)

¹ The contract number is AID-306-C-14-00011.



**Wood Environment & Infrastructure Solutions, Inc.
Special Purpose Financial Statement**

Technical Assistance Provided to the Ministry of Public Works

For the period January 1, 2016 through August 2, 2017

(With Independent Auditor's Report Thereon)

Table of Contents

Transmittal Letter	1
Summary	2
Independent Auditor’s Report On The Special Purpose Financial Statement	6
Special Purpose Financial Statement	8
Notes to the Special Purpose Financial Statement	9
Notes To The Questioned Costs Presented on the Special Purpose Financial Statement.....	11
Independent Auditor’s Report On Internal Control	12
Independent Auditor’s Report On Compliance.....	14
Section I - Schedule Of Findings And Questioned Costs.....	16
Section II - Summary Schedule of Prior Audit, Review, And Assessment Findings	19
Appendix A - Views Of Responsible Officials	20
Appendix B: Auditor’s Rebuttal.....	25

**Crowe LLP**

Independent Member Crowe Global

1455 Pennsylvania Avenue, N.W., Suite 700
Washington, D.C. 20004-1008

Tel +1 202 624 5555

Fax +1 202 624 8858

www.crowe.com

Transmittal Letter

March 12, 2019

Chairperson and Senior Management
Wood Environment & Infrastructure Solutions, Inc.
751 Arbor Way, Suite 180
Blue Bell, PA 19422-1960

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Wood Environment & Infrastructure Solutions, Inc. ("Wood"), USAID contract number AID-306-C-14-00011, Technical Assistance Provided to the Ministry of Public Works, for the period January 1, 2016 through August 2, 2017.

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. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of Wood, SIGAR, and the United States Agency for International Development provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's responses have been incorporated as an appendix to the report.

Thank you for providing us the opportunity to work with you and to conduct the audit of Wood's contract.

Sincerely,

Bert Nuehring, CPA, Partner
Crowe LLP

Summary

Background

On August 2, 2014, the U.S. Agency for International Development (USAID) awarded a Cost-Plus-Fixed-Fee contract to AMEC Foster Wheeler Environment & Infrastructure, Inc. to provide technical assistance to the Afghanistan Ministry of Public Works. The objective of the work was to improve the management, financing, and efficiency of Afghanistan's road sector by providing technical assistance to enable the Ministry of Public Works to establish three new institutions: the Road Authority, Road Fund, and Transportation Institute. On October 6, 2017, the Wood Group acquired AMEC Foster Wheeler Environment & Infrastructure, Inc. Modification 9 updated the contract to reflect the name change to Wood Environment & Infrastructure Solutions, Inc. ("Wood").

The contract's initial period of performance was August 3, 2014 through August 2, 2015, with an estimated total cost of \$21,366,222. The contract total included \$19,977,767 in estimated costs and a fixed fee of \$1,388,455. The contract was modified 9 times, increasing the contract obligations to \$25,486,058 and extending the period of performance through August 2, 2017. Wood has reported \$12, 979,139 in total costs and fixed fees during the audit period of January 1, 2016 through August 2, 2017.

Modification	Date	Highlights
Modification 1	April 02, 2015	Change of contractor name; update project activities and revise fee schedule.
Modification 2	July 12, 2015	Modification to increase the ceiling of the contract by \$4,119,835 from \$21,366,222 to \$25,486,057 and update fee schedule.
Modification 3	September 03, 2015	Additional clarification for deliverable acceptance;
Modification 4	September 10, 2015	Incrementally fund the contract by the amount of \$9,686,058.00.
Modification 5	April 05, 2016	Modification to add more clarity to the requirements of the contract and to revise deliverables' schedule
Modification 6	June 05, 2016	Incrementally fund the contract in the amount of \$6,999,999.
Modification 7	February 05, 2017	Modification to revise delivery dates.
Modification 8	July 24, 2017	Modification is administrative only.
Modification 9	December 13, 2018	Modification to implement name change.

Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of Wood, USAID contract number AID-306-C-14-00011.

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 contract 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 contract 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 Wood's internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether Wood complied, in all material respects, with the contract's requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract 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 or other financial data significant to the audit objective.

Scope

The scope of the audit included the period January 1, 2016 through August 2, 2017. The audit was limited to those matters and procedures pertinent to USAID contract number AID-306-C-14-00011 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 project for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Subrecipient Monitoring
- Equipment and Real Property Management;
- Procurement and Suspension and Debarment; and
- Reporting.

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; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by Wood. 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 executed by and between Wood and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, reimbursement requests submitted by Wood to the Government, procurements, reports, and government property items for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess Wood's compliance. Testing of indirect costs was limited to: 1) determining whether indirect costs were charged to the U.S. Government in accordance with the rate limitations established within the contract; 2) testing whether indirect costs charged to the contract were calculated in accordance with the provisions of the Negotiated Indirect Cost Rate Agreement ("NICRA"); and 3) determining whether Wood adjusted any charges based on the provisional indirect cost rates incorporated within the NICRA following revision or finalization of the provisional rates.

Regarding Audit Objective 4, Crowe inquired of SIGAR, Wood, and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed, and that required corrective action. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow-up. For findings determined to have a potential material effect on the Special Purpose Financial Statements, Crowe performed follow-up audit procedures which may have included, but were not limited to, testing specific transaction groups, reviewing modifications to internal procedures, and evaluating the status of the implementation of corrective actions regarding the finding or findings identified. The results of these procedures and a determination regarding the inclusion of the findings as part of this audit report are noted in **Section II**.

Summary of Results

Upon completion of Crowe's procedures, Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

Crowe also reported on both Wood compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over financial reporting. With regard to matters of internal control and compliance with laws, rules, regulations, and the terms of the contract, Crowe identified two deficiencies in internal control reported as Findings 2018-01 and 2018-02. In addition, one significant deficiency in internal control reported as Finding 2018-03. Crowe also reported three instances of noncompliance as Findings 2018-01, 2018-02, and 2018-03 in **Section I**. As a result of the findings, Crowe questions a total of \$11,718 in unsupported costs. A summary listing of the findings and questioned costs is in the table below. The summary presents an overview of the audit results 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	Classification	Questioned Costs	Cumulative Questioned Costs
2018-01	Non-Competitive Procurement	Deficiency and Noncompliance	\$5,468	\$5,468
2018-02	Unallowable Costs - Travel	Deficiency and Noncompliance	\$1,490	\$6,958
2018-03	Incomplete Inventory Records	Significant Deficiency and Noncompliance	\$4,760	\$11,718
Total				\$11,718

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to Wood's financial and compliance performance under the contract. Based on Crowe's communications with Wood, USAID and SIGAR two reports were identified. One finding, regarding specific information missing from the inventory system, was identified from the noted reports and required follow-up audit procedures. Crowe concluded that Wood took adequate corrective action with respect to the identified matter that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. During testing of the noted finding, Crowe identified other missing information from the inventory system. Accordingly, finding 2018-03 identifies those items noted during this audit. The specific results of the follow-up procedures and the status of the finding are noted within **Section II**.

Summary of Management Comments

Wood disagreed with one finding, finding 2018-01 and agreed with two findings, 2018-02 and 2018-03. Crowe has included a rebuttal to finding 2018-01. This rebuttal is included at **Appendix B**.

References to Appendices

The auditor's reports are supplemented by one appendix - **Appendix A** containing the Views of Responsible Officials.

Independent Auditor's Report On The Special Purpose Financial Statement

Chairperson and Senior Management
Wood Environment & Infrastructure Solutions, Inc.
751 Arbor Way, Suite 180
Blue Bell, PA 19422-1960

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 Wood Environment & Infrastructure Solutions, Inc. ("Wood"), and related notes to the Statement, for the period January 1, 2016 through August 2, 2017, with respect to USAID contract number AID-306-C-14-00011.

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 USAID contract number AID-306-C-14-00011 ("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.

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, 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 and on the basis of presentation and accounting described in Notes 2 and 3.

Basis of Presentation and Accounting

We draw attention to Notes 2 and 3 to the Statement, which describes the basis of presentation and accounting. The Statement was prepared by Wood in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of USAID contract number AID-306-C-14-00011, which is a basis of 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 these matters.

Restriction on Use

This report is intended for the information of Wood, 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 February 15, 2019, on our consideration of Wood'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* in considering Wood's internal control over financial reporting and compliance.

Crowe LLP

February 15, 2019
Washington, D.C.

Wood Environment & Infrastructure Solutions, Inc.
Special Purpose Financial Statement
Contract Number: AID-306-C-14-00011
For the period 1 January 2016 through 2 August 2017

	<u>Total Budget</u>	<u>2016 - 2017 Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Revenues					
Contract # AID-306-C-14-00011	\$ 25,395,051	\$ 13,059,752			5
Total Revenue	\$ 25,395,051	\$ 13,059,752			
Cost Incurred					
Labor	\$ 3,670,267	\$ 1,577,470			6
Travel	\$ 403,202	\$ 94,769			
Supplies	\$ 21,822	\$ -			
Other Direct Costs	\$ 100,823	\$ 6,200		\$ 4,760	C
Security	\$ 3,307,043	\$ 2,242,960		\$ 6,958	A, B
Subcontractors	\$ 12,034,601	\$ 6,119,924			
Total Direct Costs	\$ 19,537,758	\$ 10,041,323			
Indirect Costs					
Overhead	\$ 2,730,212	\$ 1,085,254			
General & Administrative	\$ 1,829,633	\$ 832,804			
Total Costs Incurred	\$ 24,097,603	\$ 11,959,381			
Fixed Fee	\$ 1,297,448	\$ 1,019,758			
Total Costs plus Fixed Fee	\$ 25,395,051	\$ 12,979,139			
Balance	\$ -	\$ 80,613		\$ 11,718	7

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

Notes to the Special Purpose Financial Statement

For the Period January 1, 2016 through August 2, 2017

Note 1. The Company

Wood Environment & Infrastructure Solutions, Inc. ("Wood") is an environmental and engineering consulting organization providing a broad range of services including environmental sciences, geotechnical, engineering design and construction management and consultancy services. Wood was organized as a corporation under the laws of the State of Nevada on 1 June 1994. Wood contracted with USAID to provide technical assistance to the Ministry of Public Works to improve the management, financing, and efficiency of the road sector. The period of performance for the contract concluded on 2 August 2017.

Note 2. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes revenues earned and costs incurred under USAID contract AID-306-C-14-00011 for the period 1 January 2016 through 2 August 2017. Because the Statement presents only a selected portion of the operations of Wood, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Wood. The information in this Statement is presented in accordance with requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned contract.

Note 3. Basis of Accounting

The Statement has been prepared following an accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred, and in accordance with Wood's Cost Accounting Standards Board Disclosure Statement. Expenditures are recognized following the cost principles contained in FAR 31.205, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Wood maintains a Defense Contract Audit Agency-adequate accounting system for the recording and accumulation of costs incurred under its cost-reimbursable contract line items in its contracts. The Statement reflects all billable costs incurred under the contract during the period of audit. Transactions and/or adjustments in the accounting system for the period of audit may have occurred in accounting periods beyond the audit period and have been included in the Statement.

Note 4. Currency

The Statement is presented in US dollars. For purposes of preparing the Statement, conversions from local currency to United States dollars were not required.

Note 5. Revenues

Revenues represent the amount of funds to which Wood is entitled to receive for allowable, reimbursable costs incurred and the earned fixed fee amount under the contract. The revenues include adjustments for prior years that were subsequently posted in the accounting system during the audit period. These adjustments include: (1) a revenue adjustment in the amount \$512,644.55 for revenue earned on accrued costs in FY 2015 that were not claimed or billed in FY 2015 and subsequently reversed in FY 2016; (2) an adjustment of revenue earned in the amount of \$8,643.57 for costs incurred in FY 2015 that were not billed and subsequently written off/adjusted in FY 2016; (3) a revenue adjustment in the amount of \$53,370.44 for FY 2015 indirect costs rate reconciliation adjustment voucher posted in FY 2016.

Note 6. Costs Incurred by Budget Category

The budget total represents the final estimated cost plus fixed fee for the task order through Modification 7 dated 5 February 2017. The budget and actual cost categories shown on the Statement present costs incurred by billing category as reported in the last client billing and as accumulated in Wood's general ledger. Within the total estimated cost for performance of work, Wood was given discretion by USAID to incur reasonable, allocable and allowable costs without being bound by specific line items of its cost proposal submitted prior to contract award.

Note 7. Balance

The balance of \$80,613 represents \$80,046 for FY 2017 indirect costs rate reconciliation and \$579 for an adjustment to FY 2016 indirect costs rate reconciliation. The remaining \$12 credit balance is the result of insignificant rounding variances in revenue.

Note 8. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to January 1, 2016 through August 2, 2017, period covered by the Statement. Management has performed their analysis through February 15, 2019.

Notes To The Questioned Costs Presented on the Special Purpose Financial Statement

Note A. Finding 2018-01: Reasonable Cost

Finding 2018-01 identified an issue where Wood could not support the reasonableness of costs associated with a procurement. Questioned Costs \$5,468

Note B. Finding 2018-02: Unallowable Cost Charged to Project

Finding 2018-02 identified travel costs that were not adequately supported. Questioned Costs \$1,490

Note C. Finding 2018-03 Incomplete Inventory Records

Finding 2018-03 identified non-expendable property, which remained on the property records after project close and one item with incomplete disposition documentation. Questioned Costs \$4,760

Independent Auditor's Report On Internal Control

Chairperson and Senior Management
Wood Environment & Infrastructure Solutions, Inc.
751 Arbor Way, Suite 180
Blue Bell, PA 19422-1960

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 Wood Environment & Infrastructure Solutions, Inc. ("Wood"), and related notes to the Statement, for the period January 1, 2016 through August 2, 2017, with respect to USAID contract number AID-306-C-14-00011. We have issued our report thereon dated February 15, 2019.

Internal Control over Financial Reporting

Wood'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 January 1, 2016 through August 2, 2017, we considered Wood's internal controls to determine the 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 Wood's internal control. Accordingly, we do not express an opinion on the effectiveness of Wood's internal control.

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

Our consideration of internal control was for the limited purpose described in the second paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-03 that we consider to be a significant deficiency.

We noted certain matters that were considered deficiencies that we reported as findings 2018-01 and 2018-02.

Wood Environment & Infrastructure Solutions, Inc.'s Response to the Findings

Wood's response to the findings 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 Wood, 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 LLP

February 15, 2019
Washington, D.C.

Independent Auditor's Report On Compliance

Chairperson and Senior Management
Wood Environment & Infrastructure Solutions, Inc. 751 Arbor Way, Suite 180
Blue Bell, PA 19422-1960

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 Wood Environment & Infrastructure Solutions, Inc. ("Wood"), and related notes to the Statement, for the period January 1, 2016 through August 2, 2017, with respect to USAID contract number AID-306-C-14-00011. We have issued our report thereon dated February 15, 2019.

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 Wood.

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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-01, 2018-02 and 2018-03 in the accompanying Schedule of Findings and Questioned Costs.

Wood Environment & Infrastructure Solutions, Inc.'s Response to the Finding

Wood's response to the finding 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.

Restriction on Use

This report is intended for the information of Wood, 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 LLP

February 15, 2019
Washington, D.C.

Section I - Schedule Of Findings And Questioned Costs

Finding 2018-01: Reasonable Cost

Deficiency and Non-compliance

Condition: Crowe noted for 1 of 3 procurements tested, from a population of 16 procurements, where Wood did not perform a reasonable cost analysis for the purchase of office supplies. Wood initially issued a contract to the vendor for \$2,500 on August 19, 2014. Over the course of the next 12 months, Wood modified the vendor's contract 3 times increasing the contract amount to a total of \$19,000. During the audit period, Wood was reimbursed \$5,468 by the Government for a portion of this procurement. Wood was required to establish the reasonableness of cost associated with these procurements. No evidence that Wood established that the costs were reasonable was provided.

Description	Date	Amount
Original Contract	August 19, 2014	\$2,500
Modification 1	November 20, 2014	\$2,500
Modification 2	March 26, 2015	\$5,000
Modification 3	July 30, 2015	\$9,000
Total Amount of Contract		\$19,000

Criteria:

Pursuant to FAR 31.201-2, *Determining allowability*, "(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in [FAR 31.2]."

FAR 31.201-3, *Determining reasonableness*, states:

- (a) 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.

Questioned Costs: \$5,468.

Effect: Wood may not have achieved the most advantageous price for the Federal Government.

Cause: The procurement was made without being subject to the establishment of cost reasonableness, because Wood did not properly train its employees to understand applicable procurement requirements and because Wood's policies were inconsistent with those requirements.

Recommendation: Crowe recommends Wood:

- A.) Reimburse the Federal Government \$5,468 or provide price and cost analysis support the reasonableness of the costs.
- B.) Provide specific training to employees regarding the application of reasonable cost analysis.
- C.) Update procurement policies to comply with applicable regulations.

Finding 2018-02: Unallowable Cost

Deficiency and Non-compliance

Condition: Crowe tested 46 out of 11,776 expenditure transactions under the contract and noted one subcontractor's monthly invoice where Wood could not provide adequate support, e.g. travel agency invoice or receipt for the airline ticket, to determine if the flight costs charged to the program on the invoice from the vendor were allowable to the program. The cost of the flight was \$1,490.

Criteria Pursuant to 48 CFR 31.201-2 Determining Allowability (d) "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Questioned Costs: \$1,490.

Effect: The Federal Government may have reimbursed Wood for excessive travel costs.

Cause: Wood employees, as part of their review, did not ensure that all necessary documentation was provided to support costs charged on the vendor's invoice.

Recommendation: Crowe recommends that Wood:

- A.) Reimburse the Federal Government \$1,490 or provide documentation to support the allowability;
and
- B.) Establish a policy and procedure defining review procedures to be followed to ensure the allowability of costs charged to the program.

Finding 2018-03: Incomplete Inventory Records

Significant Deficiency and Non-compliance

- I. **Condition:** During our testing of Wood's compliance with non-expendable property standards, Crowe selected 18 of 23 non-expendable property items for testing. Crowe noted the following issues:
- A.) After the project was closed, eight items including four laser printers with a total estimated value of \$1,200 and four laptop computers with a total estimated value of \$3,560 remained on the Wood master inventory listing without disposition notations. Wood could not provide documentation to support either the ultimate disposition or transfer of the noted items.
 - B.) Crowe analyzed one disposition approval document from USAID and found it included the authorization signature from USAID but did not contain signatures to document the delivery from Wood nor receipt from USAID of three laptop computers. These items are not included as questioned costs.

Criteria Pursuant to 48 CFR 52.245.1.f. (iii) "Records of Government property. The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions..."

Questioned Costs: \$4,760

Effect: Inventory records serve as an integral management tool for tracking and accountability for federally funded non-expendable property. When inventory records are not accurate, the location and tracking of non-expendable property cannot be effectively accomplished and could lead to the loss or theft of the property.

Cause: Wood did not have a policy to update inventory records regularly to ensure property records were accurate and current.

Recommendation: Crowe recommends Wood:

- A.) Reimburse the Federal Government \$4,760 for the questioned costs or provide documentation supporting the disposition of the items noted; and
- B.) Develop a non-expendable property policy which addresses the update of inventory records on a regular basis so as to comply with 48 CFR 52.245.1.f.(iii)

Section II - Summary Schedule of Prior Audit, Review, And Assessment Findings

Crowe identified two prior audit reports of projects administered by Wood. The audits identified include:

- United States Agency for International Development (USAID) issued the Financial Audit of Costs Incurred for Afghanistan by Amec Foster Wheeler Environment & Infrastructure, Inc., under Technical Assistance to the Ministry of Public works of Afghanistan, Contract NO. AID-306-C-14-00011, for the period August 3, 2014 through December 31, 2015. Issued March 9, 2017.
- Special Inspector General for Afghanistan Reconstruction (SIGAR) issued the Amec Foster Wheeler Environment & Infrastructure, Inc., Construction of the Afghan Defense University, Qarghah Afghanistan, Special Purpose Financial Statement, for the Period September 11, 2008 through February 26, 2013.

The Finding noted below has a direct and material effect to this audit.

Finding 2015-05: Property Management

Report: SIGAR issued audit - Amec Foster Wheeler Environment & Infrastructure, Inc., Construction of the Afghan Defense University, Qarghah Afghanistan, Special Purpose Financial Statement, for the Period September 11, 2008 through February 26, 2013

Issue: Wood's inventory system included incomplete information, including no evidence of receipt of property, lack of inventory reconciliation, and lack of per unit cost. Questioned costs associated with the finding were \$27,176. Wood provided proof of repayment for the questioned costs. Crowe analyzed the inventory reconciliation and the completeness of the inventory records for receipt of inventory items and per unit costs and noted no issues with these items.

Status: During the testing of Wood's inventory procedures, Crowe noted the inventory contained the specific items noted in the prior audit finding, 2015-05. Crowe concluded that Wood took adequate corrective action with respect to the identified matter. However, testing performed of non-expendable property during this audit found inventory records were not current or complete for items that had been disposed of at the end of the period of performance. Accordingly, prior audit finding 2015-08 is not repeated and finding 2018-03 for the current audit has been included as part of **Section I**.

Appendix A - Views Of Responsible Officials



Wood Environment & Infrastructure Solutions, Inc.
751 Arbor Way, Suite 180
Blue Bell, PA 19422
USA

T: 610-828-8100

www.woodplc.com

TRANSMITTED BY E-MAIL FEB-15-2019

February 15, 2019

Bert Nuehring, CPA, Partner
Crowe LLP
1455 Pennsylvania Avenue NW, Suite 700
Washington, D.C. 20004-1008

Subject: Financial Audit of Costs Incurred Under USAID Contract No. AID-306-C-14-00011 for the Period January 1, 2016 through August 2, 2017

Dear Mr. Nuehring:

Wood Environment & Infrastructure Solutions, Inc. ("Wood") acknowledges receipt of Crowe LLP's ("Crowe") draft financial audit report on the subject Contract between Wood and the United States Agency for International Development ("USAID"). As requested, please find below Wood management's responses to the findings contained in the draft report.

Finding 2018-01; Non-Competitive Process for One Procurement; Crowe identified an issue where Wood utilized a single vendor when a competitive process was required. Questioned costs \$5,468.

Response: Wood disagrees with this finding. During the audit, Crowe was provided a copy of Wood's US Federal Procurement Manual in effect for the period January 1, 2016 through August 2, 2017. The office supplies subcontract in question was originally awarded on August 19, 2014 for \$2,500 and did not require competition because it fell below the Federal Acquisition Regulation (FAR) micro purchase threshold, which was adopted by Wood and incorporated into its US Federal Procurement Manual. Wood generally competes its subcontracts to the maximum extent practicable consistent with efficient performance of a prime contract; however, there are situations where modifying an existing subcontract makes more prudent business sense than to expend time and money in issuing a new competitive solicitation.

In this case, additional supplies were required that were not contemplated at the time of subcontract award. Wood satisfied the requirement for those supplies through modifications to the existing subcontract in place for furnishing supplies. The subcontractor was a known and trusted supplier in Afghanistan and pricing was considered fair and reasonable based on the Subcontract Manager's judgment from making similar purchases. In accordance with Wood's US Federal Procurement Manual, competition is required for services or supplies exceeding \$25,000 because Wood considers the costs of competing such requirements not to be economically justified when comparing expected cost savings from competition with the additional costs associated with issuing a competitive procurement.

Wood's competition threshold of \$25,000 was part of the purchasing system approval granted by Wood's Corporate Administrative Contracting Officer from the Defense Contract Management Agency in March 2010 and was in effect for the period January 1, 2016 through August 2, 2017. It should be noted this threshold is applied on a "transaction" basis and not on an aggregated or cumulative basis.



Wood asserts that had this threshold not been in effect Wood would still have been justified in issuing the modifications to this subcontract on a single source basis under the Continuation of Services justification contained in Wood's US Federal Procurement Manual, which states, "Subcontractor is currently working under an existing Subcontract and additional services are required due to a change in Scope or Quantities. Continuity is in the best interest of AMEC (Wood) for compatibility and limitation of liability with one subcontractor." Wood would have incurred additional costs in competing supplies for a subcontract that was already in place, thus outweighing cost savings, if any, that would have been achieved through competition.

Wood disagrees with the assertion that Wood may not have achieved the most advantageous price for USAID. Wood was following its Government-approved internally developed procurement policy in place at the time, and Wood employees were properly trained to apply the non-competitive procurement requirements in effect. USAID derived a benefit from the supplies procured and utilized under the Contract and it would be inappropriate and unjust to require Wood to reimburse USAID for the cost of those supplies.

Corrective Action: Wood believes there is no corrective action required.

Finding 2018-02: Unallowable Cost Charged to Project; Crowe identified travel costs that were not adequately supported. Questioned costs \$1490.

Response: This finding pertains to the cost of a flight taken by one of Wood's subcontractors under the Contract. Wood acknowledges it should have ensured that the subcontractor provided adequate documentation to support the costs that were invoiced. Wood was able to obtain a copy of the travel agency receipt for this flight, which is shown in Attachment 1. The airfare cost incurred by the subcontractor was GBP 915.60 and the subcontractor invoiced Wood for \$1,490.13, inclusive of currency conversion and administrative fee. Wood respectfully requests that USAID accept this backup documentation as support for this flight and not seek reimbursement from Wood for this cost incurred.

Corrective Action: Wood agrees to modify its US Federal Procurement Manual by March 31, 2019 to include a provision emphasizing the importance of reviewing the allowability of costs and associated documentation invoiced by subcontractors under cost reimbursable type prime contracts.

Finding 2018-03: Incomplete Inventory Records; Crowe identified non-expendable property, which remained on the property records after project close and one item with incomplete disposition documentation. Questioned costs \$4,760.

Response: Wood concurs with this finding.

Corrective Action: On 31 July 2017, Wood updated its US Government Property Procedure, which includes procedures for ensuring inventory records for federally-funded non-expendable property are current and accurate, and kept updated throughout the life of contracts containing FAR Clause 52.245-1 Government Property.

Mr. Bert Nuehring, Crowe LLP

Page 3 of 4

February 15, 2019

If you have any questions regarding the above, please contact me at [REDACTED]

Sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

cc: Emy Neuman-Javornik, Crowe

[REDACTED]

[REDACTED]

[REDACTED]

Attachment 1



Appendix B: Auditor's Rebuttal

Crowe LLP ("Crowe") has reviewed the management response to the audit submitted on February 15, 2019 containing Wood Environment & Infrastructure Solutions, Inc.'s ("Wood's") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the Wood. A rebuttal has been included in those instances where Wood's management disagreed with the facts presented within the condition or otherwise did not concur with Crowe's recommendation. Wood agreed with findings 2018-02 and 2018-03 and therefore, those findings are not addressed here.

Finding 2018-01: Non-Competitive Procurement (Retitled Reasonable Cost)

Crowe has reviewed Wood's management comment relating the above noted finding. Wood's management disagreed with Crowe's conclusion that a competitive procurement was required. Wood, in their rebuttal, points out that Crowe was provided with the procurement manual effective January 1, 2016 through August 2, 2017. This manual was not in effect during the time the transactions in question occurred. Therefore, Crowe has removed this portion of the criteria from the finding. Wood also noted that they had obtained approval from the Defense Contract Management Agency in 2010 for the organization's purchasing system. Under this approval, Wood had established a \$25,000 threshold for competitive procurements. We agree and note this consideration. However, although this procurement is below the noted \$25,000 threshold it is above the \$3,000 micro purchase threshold applicable to the transactions time period and is therefore subject to a cost reasonableness analysis, which was not performed. Accordingly, questioned cost will remain unchanged.

(Page Intentionally Left Blank)

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- 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.

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202