

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

SIGAR 19-42 Financial Audit

## USAID's Strong Hubs for Afghan Hope and Resilience: Audit of Costs Incurred by DAI Global LLC

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



JULY  
2019

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On November 30, 2014, the U.S. Agency for International Development (USAID) awarded DAI Washington a 3-year, \$73.5 million cost-plus-fixed-fee contract to implement the Strong Hubs for Afghan Hope and Resilience Program in Afghanistan. The program's objective is to create well-governed and fiscally sustainable Afghan municipalities that are capable of meeting the needs of Afghanistan's growing urban population. USAID modified the contract seven times, extending the period of performance by 2 years to November 29, 2019, and decreasing the total funding to \$62 million. On April 21, 2016, DAI Washington changed its name to DAI Global LLC (DAI).

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$29,510,225 charged to the contract from January 1, 2016, through November 30, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in DAI'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 DAI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAI'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.

July 2019

## USAID's Strong Hubs for Afghan Hope and Resilience: Audit of Costs Incurred by DAI Global LLC

SIGAR 19-42-FA

### WHAT THE AUDIT FOUND

Crowe identified three material weakness, one significant deficiency, and one deficiency in DAI's internal controls, and four instances of noncompliance with the terms and conditions of the contract, and applicable laws and regulations. For example, Crowe found that DAI overcharged USAID for some indirect costs because DAI misread the indirect cost agreement's requirements and incorrectly applied the indirect cost rate to subcontractor costs. Crowe also found that two of DAI's subcontracted employees worked fewer hours than contractually required.

As a result of these internal control weaknesses and deficiencies, and instances of noncompliance, Crowe identified \$381,764 in questioned costs, consisting entirely of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. Crowe did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Indirect Cost Rate	\$381,444	\$0	\$381,444
Subcontractors	\$320	\$0	\$320
<b>Total Questioned Costs</b>	<b>\$381,764</b>	<b>\$0</b>	<b>\$381,764</b>

Crowe identified two prior audits that had six findings and recommendations that could have a direct and material effect on the SPFS. Crowe concluded that DAI had taken adequate corrective action for all six findings and recommendations.

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

### WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$381,764 in total questioned costs identified in the report.**
- 2. Advise DAI to address the report's five internal control findings.**
- 3. Advise DAI to address the report's four noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 3, 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 DAI Global LLC (DAI) under a U.S. Agency for International Development (USAID) cost-plus-fixed-fee contract to implement the Strong Hubs for Afghan Hope and Resilience Program.<sup>1</sup> The program's objective is to create well-governed and fiscally sustainable Afghan municipalities that are capable of meeting the needs of Afghanistan's growing urban population. Crowe's audit covered \$29,510,225 charged to the contract from January 1, 2016, through November 30, 2017. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$381,764 in total questioned costs identified in the report.**
- 2. Advise DAI to address the report's five internal control findings.**
- 3. Advise DAI to address the report's four 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 DAI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DAI's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the 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 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-137)

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<sup>1</sup> The contract number is AID-306-C-14-00016.



**DAI Global, LLC**

**Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program**

**Special Purpose Financial Statement**

**For the period January 1, 2016, through November 30, 2017**

**(With Independent Auditor's Report Thereon)**

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**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](http://www.crowe.com)

## Transmittal Letter

June 18, 2019

To the President and Chief Executive Officer and Global Executive Team of DAI Global, LLC  
7600 Wisconsin Avenue, Suite 200  
Bethesda, Maryland 20614

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 audit of DAI Global, LLC's ("DAI") contract funded by the United States Agency for International Development (USAID).

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 DAI, 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 have been incorporated into this report as an appendix.

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

Sincerely,

A handwritten signature in black ink that reads "Chris Mower".

Chris Mower, CPA, Partner  
Crowe LLP

# Summary

## Background

The Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) engaged Crowe LLP (“Crowe” or “we” or “our”) to conduct a financial audit of U.S Agency for International Development (USAID) Contract No. AID-306-C-14-00016, which was awarded to DAI Washington on November 30, 2014. The contractor’s name was subsequently changed to be Development Alternatives, Inc. (“DAI”) beginning with the fifth modification to the contract dated December 28, 2016.

USAID issued the contract as a cost plus fixed fee completion type contract. DAI’s program – the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program – is a component of USAID’s overall strategy to help enhance the sub-national governance architecture within the country. The program’s objective is to create well-governed, fiscally sustainable Afghan municipalities capable of meeting the needs of a growing urban population. Targeted support to municipal governments, as well as the General Directorate of Municipal Affairs and municipal advisory boards, could lead to improved municipal financial management, urban service delivery, and citizen consultation.

Under the contract, DAI was charged with implementing USAID’s SHAHAR program. The contract includes a three-year period of performance spanning November 30, 2014, through November 29, 2017. USAID established a ceiling price of \$73,499,999 on the contract, inclusive of [REDACTED] in estimated costs and [REDACTED] in fixed fee payable to DAI. The contract was modified seven times, which extended the period of performance to November 29, 2019, decreased the ceiling price to \$62,000,000, and increased DAI’s fixed fee to [REDACTED]. The following table summarizes the modifications.

Modification No.	Date	Highlights
1	07/02/2015	<ul style="list-style-type: none"> <li>• Target municipalities changes</li> <li>• Comprehensive Statement of Work Deliverables addition</li> <li>• Key personnel changes</li> </ul>
2	12/02/2015	<ul style="list-style-type: none"> <li>• Key personnel changes</li> </ul>
3	01/21/2016	<ul style="list-style-type: none"> <li>• Hiring process revisions</li> </ul>
4	05/10/2016	<ul style="list-style-type: none"> <li>• Key personnel changes</li> </ul>
5	12/28/2016	<ul style="list-style-type: none"> <li>• Incremental funding increase</li> </ul>
6	04/26/2017	<ul style="list-style-type: none"> <li>• Total Estimated Costs decreased to \$46,000,000</li> <li>• Fee Schedule revisions</li> <li>• Statement of Work replacement</li> <li>• Key personnel changes</li> <li>• Incremental funding increase</li> </ul>
7	11/28/2017	<ul style="list-style-type: none"> <li>• Total Estimated Cost increased to \$62,000,000, including fixed fee increase to [REDACTED]</li> <li>• Budget realignment</li> <li>• Fee Schedule revisions</li> <li>• Statement of Work section replacements and revisions</li> <li>• Period of Performance increased to five years, or until November 29, 2019</li> <li>• Section H, Special Contract Requirements replaced</li> </ul>

(Continued)

The audit's scope includes activity within the period January 1, 2016, through November 30, 2017. Within the period under audit, DAI reported \$29,510,225 in total revenue, [REDACTED] in costs incurred, and [REDACTED] in fixed fee.

## Work Performed

Crowe was engaged by SIGAR to conduct a financial audit of DAI's 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 ("SPFS") for the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

### **Audit Objective 2 – Internal Controls**

Evaluate and obtain a sufficient understanding of DAI's internal control 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 DAI complied, in all material respects, with the contract 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 DAI 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 objectives.

## Scope

The scope of the audit covered the period January 1, 2016, through November 30, 2017. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the SPFS. The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, 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, included within the audit program for detailed evaluation:

- Allowable Costs and Activities;
- Cash Management;
- Equipment and Property Management;
- Procurement; and
- Grants Under Contract<sup>1</sup>.

## 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

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<sup>1</sup> DAI reported no incurred costs for Grants Under Contract during the audit period.



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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 tested to determine if the transactions were recorded properly in the project financial records, were incurred within the period covered by the SPFS and in alignment with specified cutoff dates, were appropriately allocated to the award if the cost benefited multiple objectives, 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 DAI during the period of performance. Crowe conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial 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 DAI 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 various sampling techniques, including, but not limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants (“AICPA”), Crowe selected expenditures; claims submitted to the Government for payment, procurements, property, and equipment; and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess DAI'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”) issued by USAID. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of DAI, USAID staff participating in the audit entrance conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified three prior audit reports – two of which contained findings and recommendations. We determined that six of the findings included within the two aforementioned reports could be direct and material to the SPFS or other financial objectives applicable to the audit. For findings determined to have a potential material effect on the SPFS, Crowe performed follow-up audit procedures which 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 are noted in Section II.

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified five findings because they met one or more of the following criteria: (1) deficiencies in internal control; (2) significant deficiencies in internal control; (3) material weaknesses in internal control; (4) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (5) questioned costs resulted from identified instances of noncompliance.

Crowe issued an unmodified opinion on the SPFS.

Crowe also reported on both DAI's internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract. Three material weaknesses in internal control, one significant deficiency in internal control, and one deficiency in internal control were reported. Four of the findings were classified as instances of noncompliance. In situations in which internal

control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

In response to identified instances of noncompliance, Crowe reported \$381,764 in questioned costs. SIGAR requires that questioned costs be classified as either “ineligible” or “unsupported.” SIGAR defines unsupported costs as those that are not supported with adequate documentation or did not have required prior approvals or authorizations. Ineligible costs are those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or are unrelated to the award. All of the reported \$381,764 in unique questioned costs were deemed ineligible.

Crowe also requested copies of prior audits, reviews, and evaluations that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives. Three reports were identified and assessed for purposes of determining whether there were findings and corrective actions requiring follow-up. Two of the three reports contained findings, for a total of six findings subject to review. Crowe conducted procedures to determine whether adequate corrective action had been taken on prior findings. Crowe concluded that DAI had taken adequate corrective action on the six findings. **Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings** provides additional detail regarding the findings.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit’s results in their entirety.

#### Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2018-01	Noncompliance with the NICRA G&A Base Application	Material Weakness and Noncompliance	\$381,444
2018-02	Uncertified and Improperly Formatted Annual Inventory of Government Property	Material Weakness and Noncompliance	None
2018-03	Material Misstatements and Omissions of Required Components in the Special Purpose Financial Statement	Material Weakness	None
2018-04	Inadequately Supported Property Records	Significant Deficiency and Noncompliance	None
2018-05	Subcontractors Worked Less than Contractually Required	Deficiency and Noncompliance	\$320
<b>Total Questioned Costs:</b>			<b>\$381,764</b>

## Summary of Management Comments

Management partially concurred with Findings 2018-02 and 2018-03 and the accompanying recommendations. DAI’s management disagreed with Findings 2018-01, 2018-04, and 2018-05. DAI also disagreed with all questioned costs. We have summarized the areas where DAI disagreed or partially concurred with our findings below.

- Regarding Finding 2018-01, management did not concur with the auditor’s position that subcontractor costs reflect pass-through costs, and cited a 2018 revision to the NICRA that changed the base of application to no longer exclude pass through other direct costs.

- Regarding Finding 2018-02, DAI concurred with the portion of the finding regarding the omission of a required attestation statement in the Annual Inventory of Government Property submission. DAI disagreed with the portion of the finding asserting that inaccurate information was submitted or that there were missing data elements. DAI also disagreed with the auditor's conclusion that DAI's inventory was improperly formatted in comparison to the provisions of AIDAR 752.245-70. The basis of DAI's position is that USAID had previously accepted these submissions.
- DAI, in its response to Finding 2018-03, noted that although they agree with the finding, they do not agree the effect of the finding would negatively affect the reliability of financial reporting or increase the vulnerability to fraud in financial transactions, as well as affect reporting or procurement activities.
- DAI did not concur with Finding 2018-04, as DAI considers the property values reported in its inventory to be adequately supported and considers the information contained in its property trackers to clearly identify which entity holds title to each property item.
- DAI disagreed with Finding 2018-05, contending subcontractor employees are not subject to the requirements of Section H.7(g) of DAI's contract with USAID.

## References to Appendices

The auditor's reports are supplemented by four appendices: **Appendix A**, which contains management's responses to the audit findings; **Appendix B**, which contains the auditor's rebuttal; **Appendix C**, which contains USAID's annual inventory template; and **Appendix D**, which contains an excerpt from DAI's annual inventory submissions.

## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the President and Chief Executive Officer and Global Executive Team of DAI Global, LLC  
7600 Wisconsin Avenue, Suite 200  
Bethesda, Maryland 20614

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 DAI Global, LLC ("DAI"), and related notes to the Statement, with respect to the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program funded by USAID Contract No. AID-306-C-14-00016, for the period January 1, 2016, through November 30, 2017.

***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"). 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, revenues received, costs incurred, and balance for the indicated period in accordance with the basis of presentation and accounting described in Notes 1, 2, 5, 6, and 7.

## **Basis of Presentation and Accounting**

We draw attention to Notes 1, 2, 5, 6, and 7 to the Statement, which describe the basis of presentation and accounting. The Statement presents those amounts as permitted under the terms of USAID Contract No. AID-306-C-14-00016, 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 this matter.

## **Restriction on Use**

This report is intended for the information of DAI, 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 June 4, 2019, on our consideration of DAI'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 DAI's internal control over financial reporting and compliance.

  
Crowe LLP

June 4, 2019  
Washington, D.C.

**DAI Global, LLC**  
**Special Purpose Financial Statement**  
**Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016**  
**For the period from January 1, 2016 through November 30, 2017**

	Budget*	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
<b>Revenues</b>					
Contract No. AID-306-C-14-00016	\$ 62,000,000	\$ 29,510,225			
<b>Total Revenue</b>	<b>62,000,000</b>	<b>29,510,225</b>			5
<b>Costs Incurred</b>					
CLIN 001: Assistance to the GDMA	14,948,581	6,111,123	\$ 77	\$ -	
CLIN 002: Assistance to Municipal Governments	29,894,041	15,693,351	160	-	
CLIN 003: Support to MABs	12,337,323	5,466,876	83	-	
CLIN 004: Grants Under Contract	-	-	381,444	-	A, B
<b>Total Cost Without Fee</b>					
CLIN 005: Fixed Fee					
<b>Total Cost Plus Fixed Fee</b>					
<b>Balance / Total</b>		<b>\$ -</b>	<b>\$ 381,764</b>	<b>\$ -</b>	7

\* - Budget column reflects the total contract budget for the life of the SHAHAR award. Actual column shows costs incurred in the audit period. Presentation is not informative of any remaining unused and/or available funds under contract number AID-306-C-14-00016.

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

**Notes to the Special Purpose Financial Statement  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under USAID's Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program funded by USAID Contract No. AID-306-C-14-00016 for the period from January 1, 2016, to November 30, 2017. Because the Statement presents only a selected portion of the operations of DAI Global, LLC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of DAI Global, LLC. The information in this Statement is specific to the contract listed above. 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 transacted in the Project's Afghanistan Office are reported on the Statement using the cash basis of accounting. Expenditures paid through DAI's Home Office are reported using the accrual basis of accounting. Expenditures are recognized following the cost principles contained in DAI Global, LLC's Cost Accounting Standards Disclosure Statement, Generally Accepted Accounting Principles ("GAAP"), and the requirements of the commercial entity cost principles appearing in Title 48, Part 31 of the United States Code of Federal Regulations wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – ORGANIZATIONAL HISTORY**

DAI Global, LLC is a global development company with operations around the world. The Company, formerly known as "Development Alternatives, Inc.", was originally incorporated on May 6, 1970. On January 15, 2016, Development Alternatives, Inc. changed its organizational structure and converted from an S corporation to a limited liability company (LLC) and was renamed DAI Global, LLC. This conversion constitutes a continuation of the existence of the previous corporation in the form of a Delaware limited liability company. The business and affairs of the Company are managed by its Board of Managers.

**NOTE 4 – FOREIGN CURRENCY CONVERSION METHOD**

For purposes of preparing the Statement, conversions from local currency to United States dollars were prepared in accordance with DAI Global, LLC's exchange rate policy. To record financial transactions, DAI Global, LLC uses the exchange rate of the authorized bank or financial institution effecting the conversion of U.S. dollars to local currency for in-country purchases. This foreign currency exchange rate remains in effect until another currency conversion is required.

**NOTE 5 – REVENUES**

Revenues associated with reimbursable costs incurred in the Project's Afghanistan Office are reported on the Statement using the cash basis of accounting. Revenues associated with reimbursable expenditures paid through DAI's Home Office are reported using the accrual basis of accounting.

**Notes to the Special Purpose Financial Statement  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016 through November 30, 2017**

**NOTE 6 – COSTS INCURRED BY BUDGET CATEGORY**

The budget categories in the Special Purpose Financial Statement are taken from the approved SHAHAR contract budget. Please note that the Budget column in the Statement reflects the total contract budget for the life of the award, while the Actual column shows costs incurred for the period audited. Accordingly, the amounts presented are not informative of any remaining unused and/or available funds under Contract No. AID-306-C-14-00016.

**NOTE 7 – BALANCE**

The fund balance presented on the Statement represents the difference between revenues recognized and the sum of costs incurred and fixed fee during the implementation of the contract. For the period ending November 30, 2017, the outstanding fund balance amounted to \$0.

**NOTE 8 – CURRENCY**

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

**NOTE 9 – SUBCONTRACTORS**

Subcontractors include recipients of subcontracts issued to local or U.S.-based entities. Subcontracts may be issued as cost plus fixed fee, time and materials, fixed price, blanket purchase agreements, and/or purchase orders issued for major equipment and/or other commercial goods and services purchases. Subcontractors and their corresponding costs incurred during the period under review are as follows:

Subcontractor	Total Disbursement During the Period from January 1, 2016 through November 30, 2017 (USD)
Afghan Brilliant Construction Services	\$ 112,272.07
Afghan Laser Engineering & Construction Company	83,757.90
Afghan Technics Ltd	8,114.91
Aqaba Construction Company	108,642.63
Arbab Faisal Construction Company	208,397.91
Assess Transform Reach Consulting	541,915.00
Bilal Niamatyar Engineering Construction Company	92,349.55
Consolidated Builders Com	115,440.27
Da Maidan Zaw ahnono Construction Co	123,854.97
Draa Construction Company	121,701.75
Dynamic Vision	210,347.97
Ever Smart Construction Company	7,160.91
Global Trust Construction Company Ltd	193,160.85
INTERNATIONAL CITY COUNTY MANAGEMENT ASSOCIATION	6,451,315.84
Ishaq Zai Const. Material Prod. & Road Build. Co	53,277.59
LAPIS Ltd	115,085.08
Pamear International Const. Road & Build. Org. Co	122,235.83

(Continued)



**Notes to the Special Purpose Financial Statement  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016 through November 30, 2017**

Subcontractor	Total Disbursement During the Period from January 1, 2016 through November 30, 2017 (USD)
Rahman Safi International Consulting	445,693.19
Sultan Kabir Construction Company	6,953.27
SYNERGY INTERNATIONAL SYSTEMS INC	329,500.65
Top Level Construction Co.	13,776.32
Twenty Four Construction Company	18,050.74
Unique Wahaj Construction Company	45,808.43
Wrono Construction & Prod. of Constr. Material Co	91,059.79
Zia Ayoubi Construction Company	141,238.01
<b>Total</b>	<b>\$9,761,111.43</b>

**NOTE 10 – PROGRAM STATUS**

The SHAHAR Program remains active. The period of performance for the contract is scheduled to conclude on November 29, 2019. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of final negotiated indirect cost rate agreements.

**NOTE 11 – SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to the January 1, 2016, through November 30, 2017 period covered by the Statement. Management has performed their analysis through June 4, 2019.

Subsequent to the period covered by the Statement, DAI and USAID negotiated two modifications to the Negotiated Indirect Cost Rate Agreement (NICRA). The first modification was dated January 16, 2018, and resulted in revisions to the Fringe Benefit Rate applicable to Home Office/Overseas labor, the overhead rate, and the general and administrative (G&A) rate.

A second modification to the NICRA was executed on July 17, 2018. The modification resulted in revisions to the Fringe Benefit Rate applicable to Home Office/Overseas labor, the overhead rate, and the G&A rates for 2016 and 2017. Further, although the base of application remained unchanged, the footnote referring to this base was clarified as follows:

G&A base of application per the NICRA for 2015 through July 16, 2018: Total costs, excluding G&A costs and pass through other direct costs.

G&A base of application per the NICRA dated July 17, 2018: Total costs, excluding G&A costs and pass-through grants.

**DAI Global, LLC**

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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- A. Finding 2018-01 questioned \$381,444 due to DAI's assessing its general and administrative (G&A) rate against subcontractor other direct costs, which is prohibited under the terms of the Negotiated Indirect Cost Rate ("NICRA") and the contract.
- B. Finding 2018-05 includes \$320 in questioned costs because of DAI's failure to require subcontractors to work the minimum number of weekly hours.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Chief Executive Officer and Global Executive Team of DAI Global, LLC  
7600 Wisconsin Avenue, Suite 200  
Bethesda, Maryland 20614

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 DAI Global, LLC ("DAI"), and related notes to the Statement, with respect to Contract No. AID-306-C-14-00016 funding the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program, for the period from January 1, 2016, through November 30, 2017. We have issued our report thereon dated June 4, 2019.

**Internal Control over Financial Reporting**

DAI'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 and accounting described in Notes 1, 2, 5, 6, and 7 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 November 30, 2017, we considered DAI'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 DAI's internal control. Accordingly, we do not express an opinion on the effectiveness of DAI'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.

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

financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-01, 2018-02, and 2018-03 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-04 to be a significant deficiency.

We noted certain matters that we reported to DAI's management in a separate letter dated June 4, 2019.

### **DAI Global, LLC's Response to the Findings**

DAI's response to the findings was not subject to the auditing procedures applied in the audit of the 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 DAI, 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

June 4, 2019  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Executive Officer and Global Executive Team of DAI Global, LLC  
7600 Wisconsin Avenue, Suite 200  
Bethesda, Maryland 20614

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 DAI Global, LLC ("DAI"), and related notes to the Statement, with respect to USAID Contract No. AID-306-C-14-00016 funding the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program, for the period from January 1, 2016, through November 30, 2017. We have issued our report thereon dated June 4, 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 DAI.

**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 the accompanying Schedule of Findings and Questioned Costs as Findings 2018-01, 2018-02, 2018-04, and 2018-05.

**DAI Global, LLC's Response to the Findings**

DAI's response to the findings was not subjected to the auditing procedures applied in the audit of the 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 DAI, 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.

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and fluid.

Crowe LLP

June 4, 2019  
Washington, D.C.

**Section I: Schedule of Findings and Questioned Costs  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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**FINDING 2018-01: NONCOMPLIANCE WITH THE NICRA G&A BASE APPLICATION**

Material Weakness and Noncompliance

**Condition:** During our testing of 89 labor, subcontractor, fringe benefit, equipment, and supplies expenditure transactions, we noted DAI Global, LLC (“DAI”) assessed its general and administrative (“G&A”) rate against pass through other direct costs, which is inconsistent with the provisions of the Negotiated Indirect Cost Rate Agreement (“NICRA”). USAID incorporated the term “pass through other direct costs” into the NICRA, but did not include a definition. Using the Federal cost principles and other supporting Federal guidance, we identified a definition of “pass through other direct costs” and confirmed the definition with USAID.

We noted pass through other direct costs are those costs that are directly allocable to an award, other than direct labor and direct materials, and that are incurred by an entity receiving funds from DAI. Upon identification of the matter, we inquired of USAID to confirm the definition of “pass through” entities within the context of DAI’s NICRA. USAID confirmed that subcontracts are included within the definition of “pass through.” Therefore, we reviewed the population of costs incurred during our audit period and identified \$3,378,593 in subcontractor other direct costs (ODCs) burdened with the G&A rate. Two of the 25 subcontractors identified in the population contained subcontractor ODCs. The resultant amount charged was \$381,444, which is in question.

**Criteria:** Section B.6, *Indirect Costs*, in DAI’s contract states, “Contractor’s most recent Negotiated Indirect Cost Rate Agreement (NICRA) with USAID is automatically incorporated by reference into this contract as required by AIDAR 742.770.”

DAI’s NICRA dated August 20, 2015, presented DAI’s indirect cost rates in effect from January 1, 2015, until such a time that the agreement is amended. The agreement presents the following as the base of application for the G&A rate: “(d) Total costs excluding G&A costs and pass through other direct costs.”

FAR 31.201-2(a), *Determining allowability*, states: “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 [Subpart 31.2].”

**Questioned Costs:** \$381,444

**Effect:** The Government reimbursed DAI more funds than required, thus reducing the amount of funds available for programmatic purposes.

**Cause:** Per discussion with DAI, management believed the language in the NICRA presenting the base of application for the G&A rate was a typographical error and only grants were to be excluded from the burden. Management decided to administer the charges based on their understanding and interpretation rather than the requirements presented in the NICRA and the contract.

DAI Global, LLC

**Section I: Schedule of Findings and Questioned Costs**  
**Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016**  
**For the period from January 1, 2016, through November 30, 2017**

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**Recommendation:** We recommend DAI:

1. Either reimburse the Government \$381,444 or produce written documentation demonstrating USAID authorized DAI to deviate from the language in the NICRA during the audit period.
2. Conduct training regarding proper application of the NICRA.

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(Continued)



**Section I: Schedule of Findings and Questioned Costs**  
**Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016**  
**For the period from January 1, 2016, through November 30, 2017**

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**FINDING 2018-02: UNCERTIFIED AND IMPROPERLY FORMATTED ANNUAL INVENTORY OF GOVERNMENT PROPERTY**

Material Weakness and Noncompliance

**Condition:** We requested and obtained a copy of the Annual Inventory of Government Property submitted to USAID by DAI for 2016 and 2017. The inventories did not contain the required attestation statement. In addition, the inventories were not in the same format as that required by AIDAR 752.245-70 and excluded required information, resulting in an inaccurate inventory submission. See **Appendix C** for the USAID required format and **Appendix D** for an excerpt of DAI's 2016 inventory report.

We also noted the following during our review of the annual inventories:

- DAI did not provide the estimated average age of the contractor held property.
- The 2017 inventory contained 2,420 items with a total purchase price of \$971,389, while the 2016 inventory included 3,044 items with a total purchase price of \$1,139,899. However, DAI's report failed to include the total 2017 acquisitions and dispositions that reconcile the 2016 report to 2017's report.

**Criteria:** DAI's Policy 9, *Procurement and Inventory Management*, Procedure 9.6, "Inventory Management," states:

- 4.51 Projects shall conduct a physical inspection/audit of all property and equipment (even items with grantees) on a minimum of an annual basis and report to DAI/W Office of Administration or client per the terms of the contract.

DAI's Policy 9, *Procurement and Inventory Management*, states, "The Chief of Party (COP) is responsible for ensuring compliance to this policy, assigning adequate resources to ensure segregation of duties, and that all procedures are followed, to avoid putting DAI at any financial or audit risk."

Section H.15 of DAI's contract incorporates the provisions of AIDAR 752.245-70, Government property – USAID Reporting Requirements. The provision states, "[DAI] will submit an annual report on all non-expendable property in a form and manner acceptable to USAID substantially [as shown in the contract]."

In addition, Section H.15 requires the annual inventory submission include the following attestation statement:

**PROPERTY INVENTORY VERIFICATIONS**

I attest that (1) physical inventories of Government property are taken not less frequently than annually; (2) the accountability records maintained for Government property in our possession are in agreement with such inventories; and (3) the total of the detailed accountability records maintained agrees with the property value shown opposite line C above, and the estimated average age of each category of property is as cited opposite line D above. Authorized Signature.

**Questioned Costs:** None

**Effect:** Inventories submitted by DAI may be utilized by the Government to help track federally owned assets. Errors and/or omissions in the inventories may result in the Government relying on inaccurate or incomplete information.

**Section I: Schedule of Findings and Questioned Costs  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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In addition, inventories may be utilized by Government personnel as an input to their federal financial statement development process. Therefore, there is a risk that federal financial statements may be adversely impacted as a result of improperly formatted or erroneous inventories.

**Cause:** The format used by DAI for inventory submission was not in compliance with the contractual requirements. Additionally, we found the employees charged with preparing and reviewing this submission did not ensure it conformed with requirements, and/or were unaware of the requirements.

**Recommendation:** We recommend DAI:

1. Provide training to the Chief of Party, and other responsible officials, regarding the required annual inventory of Government property.
2. Design, document, and implement a procedure requiring a review of the annual inventory of Government property by a member of senior management prior to submission to USAID.
3. Include an attestation statement with all annual inventory submissions.

**Section I: Schedule of Findings and Questioned Costs  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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**FINDING 2018-03: MATERIAL MISSTATEMENTS AND OMISSIONS IN THE SPECIAL PURPOSE FINANCIAL STATEMENT (“SPFS”)**

Material Weakness

**Condition:** During our testing of the SPFS provided for audit, we noted that DAI failed to include the revenue and balance accounts required by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”).

DAI subsequently modified the SPFS to incorporate the revenue and balance accounts. We tested the original submission and subsequent revision of the SPFS and noted the amounts reported did not agree to the source data in the report of reimbursements provided by DAI. DAI indicated that the SPFS was prepared on the cash basis; thus, revenues were expected to agree to audit period receipts appearing on the report of reimbursements. We also identified differences in the balance accounts reported. DAI provided a second revision of the SPFS in response to our request, which corrected the material misstatements in the revenue and balance accounts on the SPFS.

**Criteria:** The Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) *Internal Control – Integrated Framework* states, “Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”

DAI’s ethics and business conduct policy states, “DAI’s policies, procedures, and professional management of staff are designed to minimize vulnerability to fraud in financial transactions, results reporting, grant awards, and the procurement of goods and services.”

SIGAR requires presentation of revenues received, costs incurred, and balance for the period under audit.

**Questioned Costs:** None

**Effect:** Failure to exercise adequate oversight and review of SPFS increases the likelihood that the SPFS could inadvertently mislead readers and result in their reliance on inaccurate or otherwise incomplete data.

**Cause:** Management failed to exercise proper oversight and review of the SPFS provided for audit.

**Recommendation:** We recommend DAI provide training to personnel responsible for preparing and reviewing the SPFS to ensure those individuals understand the SPFS presentation requirements and to facilitate the reliability of DAI’s financial reporting.

**Section I: Schedule of Findings and Questioned Costs  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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**FINDING 2018-04: INADEQUATELY SUPPORTED PROPERTY RECORDS**

Significant Deficiency and Noncompliance

**Condition:** We noted DAI's property records did not contain information specifying the title holder to each property item or the source of the initial purchase (i.e., contract number was blank and contract numbers were not present). In addition, DAI did not provide adequate documentation to support the value of each property item included in the property records.

**Criteria:** AIDAR 752.245-71(a), *Title to and care of property*, states, "Title to all non-expendable property purchased with contract funds under this contract and used in the Cooperating Country, shall at all times be in the name of the Cooperating Government, or such public or private agency as the Cooperating Government may designate, unless title to specified types or classes of non-expendable property is reserved to USAID under provisions set forth in the schedule of this contract; but all such property shall be under the custody and control of Contractor until the owner of title directs otherwise, or completion of work under this contract or its termination, at which time custody and control shall be turned over to the owner of title or disposed of in accordance with its instructions. All performance guaranties and warranties obtained from suppliers shall be taken in the name of the title owner. (Non-expendable property is property which is complete in itself, does not lose its identity or become a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of \$500 or more.)"

DAI Procedure 9.6, *Inventory Management*, "Action Managing Inventory," states, "Add all items purchased or received from the client or other projects to the TAMIS<sup>2</sup> inventory module (this includes items purchased for use of grantees or other beneficiaries). This should include all non-expendable and expendable items, as well as any consumable items (Office supplies or computer supplies) that the project has determined to track on the inventory."

**Questioned Costs:** None

**Effect:** There is a risk that DAI may dispose of items improperly; fail to notify the Federal Government of lost, stolen, or broken property; or fail to remit the Federal share of remaining value to the Government due to lack of knowledge regarding ownership, source, and accurate valuation.

In addition, in the absence of adequate supporting documentation to support property valuation, amounts included in the property records may be inaccurate.

**Cause:** DAI did not have an accurate understanding of the applicable requirements and failed to exercise adequate supervisory review of the property records.

**Recommendation:** We recommend DAI:

1. Design, document, and implement a procedure to exercise periodic monitoring and review of property records for completeness and accuracy;
2. Review and update the current property records to address omissions and accuracy; and
3. Provide training regarding government property records requirements to personnel responsible for managing and reviewing property records.

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<sup>2</sup> Technical and Administrative Management Information System

**Section I: Schedule of Findings and Questioned Costs  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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**FINDING 2018-05: SUBCONTRACTORS WORKED LESS THAN CONTRACTUALLY REQUIRED**

Deficiency and Noncompliance

**Condition:** During our testing of 89 expenditure transactions, we identified two subcontractor employees who worked 7.5-hour work days, totaling 75 hours during two work weeks, thereby failing to comply with the 8-hour minimum workday requirement prescribed by USAID. DAI charged USAID for 8 hours per day for the two weeks, thereby overbilling 0.5 hours per day, resulting in excess charges of \$320. This amount is in question.

**Criteria:** Section H.7(g) of contract states:

"(1) Non-overseas Employees: The length of the contractor's U.S., non-overseas employees' workday shall be in accordance with the contractor's established policies and practices and shall not be less than 8 hours per day and 40 hours per week."

FAR 52.216-7(a)(1), *Allowable Cost and Payment*, states, "The Government will make payments to the Contractor when requested as work progresses, but (except for small business concerns) not more often than once every 2 weeks, in amounts determined to be allowable by the Contracting Officer in accordance with Federal Acquisition Regulation (FAR) subpart 31.2 in effect on the date of this contract and the terms of this contract."

FAR 31.201-2(d) states, "A contractor is responsible for accounting for costs appropriately and maintaining records...adequate to demonstrate that costs claimed have been incurred."

**Questioned Costs:** \$320

**Effect:** Allowing employees to work less hours than required could increase the duration of the project, ultimately increasing costs to the federal government. In addition, USAID paid \$320 for labor costs that were not incurred.

**Cause:** DAI did not have a written policy and procedure to monitor whether employees were meeting the required hours per day.

**Recommendation:** We recommend DAI:

1. Design, develop, and implement a policy to ensure overseas and non-overseas employees are working the required minimum hours per day as stated in its contract with USAID; and
2. Reimburse the Government \$320 in questioned costs.

**Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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Crowe reviewed three prior audit, review, or assessment reports. Two of the reports contained findings and recommendations that may be direct and material to the Special Purpose Financial Statement or other financial information significant to the audit objectives. The reports containing findings follow:

1. SIGAR 18-61 Financial Audit, July 2018, USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives, Inc.
2. Close Out Financial Audit, May 2017, Close Out and Financial Audits of Schedule of Costs Incurred in Afghanistan by Development Alternatives, Inc.

We have summarized the results of our procedures below and on the following pages.

**FINDING NO. 2018-01: MISSING OR INSUFFICIENT SOURCE DOCUMENTATION TO SUPPORT INCURRED FIELD OFFICE LABOR EXPENSES**

**Report:** SIGAR 18-61 Financial Audit, USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives, Inc. for the period from July 15, 2010, through February 25, 2015, dated July 18, 2018.

**Issue:** DAI did not retain documentation for seven of 161 field office labor samples selected for testing. \$4,431 in questioned costs were reported.

**Status:** DAI provided supporting documentation to USAID subsequent to the audit, resolving the issue and eliminating the questioned costs. In addition, we conducted testing of labor charges and did not identify any instances in which supporting documentation for labor charges was not retained. This matter is not repeated.

**FINDING NO. 2018-02: MISSING OR INSUFFICIENT SOURCE DOCUMENTATION TO SUPPORT INCURRED EQUIPMENT AND SUPPLY EXPENSES**

**Report:** SIGAR 18-61 Financial Audit, USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives, Inc. for the period from July 15, 2010, through February 25, 2015, dated July 18, 2018.

**Issue:** DAI did not retain supporting documentation (e.g., purchase orders, invoices, receipts, receiving reports, bid/quote documentation, etc.) for three of 46 equipment and supply samples. \$7,169 in costs were questioned.

**Status:** We obtained copies of DAI's personnel training manual regarding records maintenance and found the manual adequately addressed the FAR supporting documentation retention requirements. We also obtained evidence of DAI's return of \$7,169 in questioned costs to USAID. In addition, we conducted testing of a sample of equipment and property items and did not identify any instances in which supporting documentation was not retained. This matter is not repeated.

**FINDING NO. 2018-03: LACK OF EVIDENCE OF COMPETITIVE BIDDING**

**Report:** SIGAR 18-61 Financial Audit, USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives, Inc. for the period from July 15, 2010, through February 25, 2015, dated July 18, 2018.

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**Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings  
Strong Hubs for Afghan Hope and Resilience (SHAHAR), Contract No. AID-306-C-14-00016  
For the period from January 1, 2016, through November 30, 2017**

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**Issue:** DAI did not provide sufficient documentation to support that competitive bidding procedures were completed for three of 46 equipment and supply transactions. \$9,774 in costs were questioned.

**Status:** We obtained and reviewed evidence of personnel training related to competitive bidding, and DAI's return of \$9,774 in questioned costs to USAID. We also obtained copies of DAI's procurement policies and procedures and considered them to adequately address competitive bidding. In addition, we conducted testing of a sample of procurements and did not identify any instances of inadequate support for competitive bidding. This matter is not repeated.

**FINDING NO. 5.4: TIMESHEETS WERE COMPLETED IN ADVANCE**

**Report:** Close Out Financial Audit, Close Out and Financial Audits of Schedule of Costs Incurred in Afghanistan by Development Alternatives, Inc., dated September 26, 2017.

**Issue:** Two employee timesheets were completed in advance of the working days covering the timesheets.

**Status:** We obtained and reviewed evidence of personnel training related to timesheet completion. In addition, during our testing of labor charges, we did not identify any instances in which timesheets were completed in advance of the work being performed. This matter is not repeated.

**FINDING NO. 6.1: PROOF OF PAYMENT WAS UNSUPPORTED**

**Report:** Close Out Financial Audit, Close Out and Financial Audits of Schedule of Costs Incurred in Afghanistan by Development Alternatives, Inc., dated September 26, 2017.

**Issue:** DAI did not provide documentation showing that five transactions totaling \$6,029 were paid.

**Status:** In the audit report, the auditors acknowledged receipt of the supporting documentation and no questioned costs were required to be returned to the Government. During our testing of transactions, we requested and obtained evidence that each cost charged to the contract was paid. No additional procedures were considered necessary regarding this finding. This matter is not repeated.

**FINDING NO. 6.2: EXCESSIVE SEVERANCE PAY TO EMPLOYEES**

**Report:** SIGAR Close Out Financial Audit, Close Out and Financial Audits of Schedule of Costs Incurred in Afghanistan by Development Alternatives, Inc., dated September 26, 2017.

**Issue:** DAI paid severance to employees and charged it to a single Federal contract based on total service to DAI rather than allocating the severance cost based on time worked on each contract. As a result, \$150,834 in severance costs were questioned because of a cost misallocation.

**Status:** The auditor recommended that DAI properly allocate the severance costs between the Incentives Driving Economic Alternatives for the North, East, and West (IDEA-NEW) and the Alternative Development Program East projects. We obtained a copy of the documentation DAI submitted to USAID and noted the costs had been re-allocated by project. During our testing of transactions, we obtained and reviewed evidence that each severance payment paid for terminated employees was properly allocated to the SHAHAR contract. This matter is not repeated.

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## Appendix A: Views of Responsible Officials





June 4, 2019

Crowe LLP  
1455 Pennsylvania Avenue N.W, Suite 700  
Washington DC 2005

**Subject: DAI Global LLC's Management Response to the Special Purpose Financial Statement audit of the United States Agency for International Development (USAID) funded Strong Hubs for Afghan Hope and Resilience (SHAHAR) Contract No. AID-306-C-14-00016, for the period January 1, 2016 through November 30, 2017**

This document is to provide DAI's response to the draft audit findings and recommendations identified in the subject audit report. Below you will find our response to each of the findings and where applicable, referenced additional support documentation is also included.

DAI would like to thank Crowe LLP for providing DAI the opportunity to respond to the findings and recommendations as reported under SIGAR's Special Purpose Financial Statement audit.

**FINDING 2018-01: NONCOMPLIANCE WITH THE NICRA G&A BASE APPLICATION**

Material Weakness and Noncompliance

**Condition:** During our testing of 89 labor, subcontractor, fringe benefit, equipment, and supplies expenditure transactions, we noted DAI Global, LLC ("DAI") assessed its general and administrative ("G&A") rate against pass through other direct costs, which is inconsistent with the provisions of the Negotiated Indirect Cost Rate Agreement ("NICRA"). USAID incorporated the term "pass through other direct costs" into the NICRA, but did not include a definition. Using the Federal cost principles and other supporting Federal guidance, we identified a definition of "pass through other direct costs" and confirmed the definition with USAID.

We noted pass through other direct costs are those costs that are directly allocable to an award, other than direct labor and direct materials, and that are incurred by an entity receiving funds from DAI. Upon identification of the matter, we inquired of USAID to confirm the definition of "pass through" entities within the context of DAI's NICRA. USAID confirmed that subcontracts are included within the definition of "pass through."

Therefore, we reviewed the population of costs incurred during our audit period and identified

\$3,378,593 in subcontractor other direct costs (ODCs) burdened with the G&A rate. Two of the 25 subcontractors identified in the population contained subcontractor ODCs. The resultant amount charged was \$381,444, which is in question.

**Criteria:** Section B.6, Indirect Costs, in DAI's contract states, "Contractor's most recent Negotiated Indirect Cost Rate Agreement (NICRA) with USAID is automatically incorporated by reference into this contract as required by AIDAR 742.770."

DAI's NICRA dated August 20, 2015, presented DAI's indirect cost rates in effect from January 1, 2015, until such a time that the agreement is amended. The agreement presents the following as the base of application for the G&A rate: "(d) Total costs excluding G&A costs and pass-through other direct costs."

FAR 31.201-2(a), Determining allowability, states: "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 [Subpart 31.2]."

**Questioned Costs:** \$381,444

**Effect:** The Government reimbursed DAI more funds than required, thus reducing the amount of funds available for programmatic purposes.

**Cause:** Per discussion with DAI, management believed the language in the NICRA presenting the base of application for the G&A rate was a typographical error and only grants were to be excluded from the burden. Management decided to administer the charges based on their understanding and interpretation rather than

**Recommendation:**

We recommend DAI:

1. Either reimburse the Government \$381,444, or produce written documentation demonstrating USAID authorized DAI to deviate from the language in the NICRA during the audit period.
2. Conduct training regarding proper application of the NICRA.

**DAI RESPONSE TO FINDING 2018-01: NONCOMPLIANCE WITH THE NICRA G&A BASE OF APPLICATION**

DAI does not concur with the auditor’s position that subcontractor costs are classified as pass through costs and therefore not eligible for application of an approved General and Administrative allocation.

Contrary to the above position, and as demonstrated to the auditor, DAI’s incurred cost submissions define only grant costs as “pass-through other direct costs”. This basis of application of indirect rates was audited in DAI’s Incurred Cost Proposal for the period 2013-2015 (effective during the subject audit period for SHAHAR) and authorized by USAID. Note (d) of the Base of Application, which in previous NICRA letters referred to “pass-through other direct costs”, was updated to reflect the correct stipulation, “pass-through grants”. The revised NICRA letter, signed by USAID in July 2018, removed any ambiguity regarding the application of G&A rates. The only costs excluded from the G&A base of application are grant costs. The NICRA rates in this letter retroactively apply to costs incurred during the audit period (January 2016 through December 2017).

No applicable regulation includes subcontractor ODCs in the pass-through cost category, nor was such a determination made by the USAID CO at the time of award. Furthermore, both subcontractor ODCs and G&A applied to subcontractor ODCs were included in the SHAHAR proposal budget, reviewed and approved by USAID at the time of award and incorporated into the prime contract. DAI therefore did not deviate from the application of indirect rates set out in the NICRA letter, our indirect cost proposal or the contract. In addition, DAI follows CAS 410 guidance with respect to allocation of G&A to final cost objectives and uses a total cost allocation base whereby Subcontractor costs are allocated the full NICRA G&A rate. Copies of the DAI’s Cost Accounting Standards disclosure with respect to allocation of G&A to Subcontractor costs are included as an attachment for your reference.

Per the definition provided by the Auditor, ineligible costs are those that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are unrelated to the award. None of the above conditions apply to G&A costs assessed on subcontractor ODCs. It is therefore unclear why the Auditor decided to question these costs as ineligible.

DAI therefore concludes that G&A charged on subcontractor ODCs is an allowable, eligible cost and disagrees with the questioning of \$381,444 on these grounds.

**FINDING 2018-02: UNCERTIFIED AND IMPROPERLY FORMATTED ANNUAL INVENTORY OF GOVERNMENT PROPERTY**

Material Weakness and Noncompliance

**Condition:** We requested and obtained a copy of the Annual Inventory of Government Property submitted to USAID by DAI for 2016 and 2017. The inventories did not contain

the required attestation statement. In addition, the inventories were not in the same format as that required by AIDAR 752.245-70 and excluded required information, resulting in an inaccurate inventory submission. See Appendix C for the USAID required format and Appendix D for an excerpt of DAI's 2016 inventory report.

We also noted the following during our review of the annual inventories:

- DAI did not provide the estimated average age of the contractor held property.
- The 2017 inventory contained 2,420 items with a total purchase price of \$971,389 while the 2016 inventory included 3,044 items with a total purchase price of \$1,139,899. However, DAI's report failed to include the total 2017 acquisitions and dispositions that reconciles the 2016 report to 2017's report.

**Criteria:** DAI's Policy 9, Procurement and Inventory Management, Procedure 9.6, "Inventory Management," states:

4.51 Projects shall conduct a physical inspection/audit of all property and equipment (even items with grantees) on a minimum of an annual basis and report to DAI/W Office of Administration or client per the terms of the contract.

DAI's Policy 9, Procurement and Inventory Management, states, "The Chief of Party (COP) is responsible for ensuring compliance to this policy, assigning adequate resources to ensure segregation of duties, and that all procedures are followed, to avoid putting DAI at any financial or audit risk."

Section H.15 of DAI's contract incorporates the provisions of AIDAR 752.245-70, Government property— USAID Reporting Requirements. The provision states, "[DAI] will submit an annual report on all non- expendable property in a form and manner acceptable to USAID substantially [as shown in the contract]."

In addition, Section H.15 requires the annual inventory submission include the following attestation statement:

**PROPERTY INVENTORY VERIFICATIONS**

I attest that (1) physical inventories of Government property are taken not less frequently than annually; (2) the accountability records maintained for Government property in our possession are in agreement with such inventories; and (3) the total of the detailed accountability records maintained agrees with the property value shown opposite line C above, and the estimated average age of each category of property is as cited opposite line D above. Authorized Signature.

**Questioned Costs:** None

**Effect:** Inventories submitted by DAI may be utilized by the Government to help track federally owned assets. Errors and/or omissions in the inventories may result in the Government relying on inaccurate or incomplete information.

In addition, inventories may be utilized by Government personnel as an input to their federal financial statement development process. Therefore, there is a risk that federal financial statements may be adversely impacted as a result of improperly formatted or erroneous inventories.

**Cause:** The format used by DAI for inventory submission was not in compliance with the contractual requirements. Additionally, we found the employees charged with preparing and reviewing this submission did not ensure it conformed with requirements, and/or were unaware of the requirements.

**Recommendation:**

We recommend DAI:

1. Provide training to the Chief of Party, and other responsible officials, regarding the required annual inventory of Government property.
2. Design, document, and implement a procedure requiring a review of the annual inventory of Government property by a member of senior management prior to submission to USAID.
3. Include an attestation statement with all annual inventory submissions.

**DAI MANAGEMENT RESPONSE TO FINDING 2018-02: UNCERTIFIED AND IMPROPERLY FORMATTED ANNUAL INVENTORY OF GOVERNMENT PROPERTY**

DAI concurs with the Auditor's finding on the omission of the required attestation statement in the Annual Inventory of Government Property and partially concurs with the finding on the incorrect format used for the inventory. We disagree with the Auditor's assessment that the inventory submission is inaccurate or missing key elements of information. We also maintain that we have complied with the provision of AIDAR 752.245-70, Government property— USAID Reporting Requirements, which states, "Contractor will submit an annual report on all non- expendable property in a form and manner acceptable to USAID substantially." We note that the report format historically submitted to USAID has been deemed acceptable by the client, as it contains all pertinent information.

Transaction dates and amounts for items of non-expendable property are tracked through the Project's General Ledger and inventory tracker, the latter of which is submitted to USAID as part of the Annual Inventory of Government Property. Purchase dates for all items of non-expendable property are included in the inventory. Additionally, we have provided to the auditors a reconciliation between the General Ledger and inventory tracker spreadsheet.

Pending consultation with the client, DAI management will instruct the SHAHAR field office to use the format required by AIDAR 752.245-70 and include the inventory verifications attestation statement in future submissions to the USAID Mission.

**FINDING 2018-03: MATERIAL MISSTATEMENTS AND OMISSIONS IN THE SPECIAL PURPOSE FINANCIAL STATEMENT (“SPFS”)****Material Weakness**

**Condition:** During our testing of the SPFS provided for audit, we noted that DAI failed to include the revenue and balance accounts required by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”).

DAI subsequently modified the SPFS to incorporate the revenue and balance accounts. We tested the original submission and subsequent revision of the SPFS and noted the amounts reported did not agree to the source data in the report of reimbursements provided by DAI. DAI indicated that the SPFS was prepared on the cash basis, thus revenues were expected to agree to audit period receipts appearing on the report of reimbursements. We also identified differences in the balance accounts reported. DAI provided a second revision of the SPFS in response to our request, which corrected the material misstatements in the revenue and balance accounts on the SPFS.

**Criteria:** The Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) Internal Control – Integrated Framework, states, “Internal control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”

DAI’s ethics and business conduct policy states, “DAI’s policies, procedures, and professional management of staff are designed to minimize vulnerability to fraud in financial transactions, results reporting, grant awards, and the procurement of goods and services.”

SIGAR requires presentation of revenues received, costs incurred, and balance for the period under audit.

**Questioned Costs:** None

**Effect:** Failure to exercise adequate oversight and review of SPFS increases the likelihood that the SPFS

could inadvertently mislead readers and result in their reliance on inaccurate or otherwise incomplete data.

**Cause:** Management failed to exercise proper oversight and review of the SPFS provided for audit.

**Recommendation:** We recommend DAI provide training to personnel responsible for preparing and reviewing the SPFS to ensure those individuals understand the SPFS presentation requirements and to facilitate the reliability of DAI’s financial reporting.

**DAI MANAGEMENT RESPONSE TO FINDING 2018-03: MATERIAL MISSTATEMENTS AND OMISSIONS IN THE SPECIAL PURPOSE FINANCIAL STATEMENT (“SPFS”)**

**DAI will take into consideration the recommendation of the Auditor pertaining to the preparation of Special Purpose Financial Statements in accordance with SIGAR requirements. We note, however, that we do not recognize revenue at the project level, and that this format of presentation is not informative of any remaining unused and/or available funds under contract number AID-306-C-14-00016. We therefore do not consider that the finding presented by the Auditor materially impacts the reliability of DAI's financial reporting, or increases the vulnerability of fraud in financial transactions, results reporting, grant awards, or the procurement of goods or services.**

#### **FINDING 2018-04: INADEQUATELY SUPPORTED PROPERTY RECORDS**

Significant Deficiency and Noncompliance

**Condition:** We noted DAI's property records did not contain information specifying the title holder to each property item or the source of the initial purchase (i.e., contract number was blank and contract numbers were not present). In addition, DAI did not provide adequate documentation to support the value of each property item included in the property records.

**Criteria:** AIDAR 752.245-71(a), Title to and care of property, states, "Title to all non-expendable property purchased with contract funds under this contract and used in the Cooperating Country, shall at all times be in the name of the Cooperating Government, or such public or private agency as the Cooperating Government may designate, unless title to specified types or classes of non-expendable property is reserved to USAID under provisions set forth in the schedule of this contract; but all such property shall be under the custody and control of Contractor until the owner of title directs otherwise, or completion of work under this contract or its termination, at which time custody and control shall be turned over to the owner of title or disposed of in accordance with its instructions. All performance guaranties and warranties obtained from suppliers shall be taken in the name of the title owner. (Non-expendable property is property which is complete in itself, does not lose its identity or become a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of \$500 or more.)"

DAI Procedure 9.6, Inventory Management, "Action Managing Inventory," states: "Add all items purchased or received from the client or other projects to the TAMIS2 inventory module (this includes items purchased for use of grantees or other beneficiaries). This should include all non-expendable and expendable items, as well as any consumable items (Office supplies or computer supplies) that the project has determined to track on the inventory."

**Questioned Costs:** None

In addition, in the absence of adequate supporting documentation to support property valuation, amounts included in the property records may be inaccurate.

**Cause:** DAI did not have an accurate understanding of the applicable requirements and failed to exercise adequate supervisory review of the property records.

**Recommendation:** We recommend DAI:

1. Design, document and implement a procedure to exercise periodic monitoring and review of property records for completeness and accuracy;
2. Review and update the current property records to address omissions and accuracy; and
3. Provide training regarding government property records requirements to personnel responsible for managing and reviewing property records.

**DAI MANAGEMENT RESPONSE TO FINDING 2018-04: INADEQUATELY SUPPORTED PROPERTY RECORDS**

**DAI does not concur with the Auditor’s conclusion that we did not provide adequate documentation to support the value of each property item included in the property records, or that we failed to exercise adequate supervisory review of these records.**

**All items of non-expendable property purchased under the SHAHAR contract and included in DAI/SHAHAR’s property records are assigned a value equivalent to the acquisition cost of the item, in accordance with FAR 52.245-1(a). Non-expendable property received from the client and/or other USAID implementing partners is also tracked as part of SHAHAR’s inventory, per the requirements of DAI Operating Procedure 9.6, Inventory Management. We note that the Auditor did not identify any instances of inaccurate valuation or inadequate documentation supporting valuation of SHAHAR’s non-expendable property records, either during audit fieldwork or the interim and exit conferences. It is unclear what requirements the Auditor is referring to when asserting “absence of adequate supporting documentation to support property valuation”.**

**We agree with the Auditor’s position that AIDAR 752.245-71(a) contains specific provisions regarding the title to non-expendable property purchased with contract funds. However, we do not agree with the assertion that the information contained in SHAHAR’s property tracker creates ambiguity around the title of property purchased under the SHAHAR contract. Neither AIDAR 752.245-70 Government property - USAID Reporting Requirements nor FAR 52.245-1 -- Government Property impose such a requirement on the contractor. All non-expendable property received from USAID and other implementing partners is clearly marked as such in the trackers and reports submitted to the Auditor, and segregable from property purchased under the SHAHAR contract.**



**AIDAR 752.245-71(a), Title to and care of property, states, “Contractor shall prepare and establish a program, to be approved by the Mission, for the receipt, use, maintenance, protection, custody, and care of non-expendable property for which it has custodial responsibility, including the establishment of reasonable controls to enforce such program”. DAI maintains that SHAHAR’s property records are complete and accurate, and that our inventory management process is appropriate and adequate.**

**FINDING 2018-05: SUBCONTRACTORS WORKED LESS THAN CONTRACTUALLY REQUIRED**

Deficiency and Noncompliance

**Condition:** During our testing of 89 expenditure transactions, we identified two subcontractor employees who worked 7.5-hour work days, totaling 75 hours during two work weeks, thereby failing to comply with the 8-hour minimum workday requirement prescribed by USAID. DAI charged USAID for 8 hours per day for the two weeks, thereby overbilling 0.5 hours per day, resulting in excess charges of \$320. This amount is in question.

**Criteria:** Section H.7(g) of contract states,

"(1) Non-overseas Employees: The length of the contractor's U.S., non-overseas employees’ workday shall be in accordance with the contractor's established policies and practices and shall not be less than 8 hours per day and 40 hours per week."

FAR 52.216-7(a)(1), Allowable Cost and Payment, states, “The Government will make payments to the Contractor when requested as work progresses, but (except for small business concerns) not more often than once every 2 weeks, in amounts determined to be allowable by the Contracting Officer in accordance with Federal Acquisition Regulation (FAR) subpart 31.2 in effect on the date of this contract and the terms of this contract.”

FAR 31.201-2(d) states, “A contractor is responsible for accounting for costs appropriately and maintaining records...adequate to demonstrate that costs claimed have been incurred.”

**Questioned Costs:** \$320

**Effect:** Allowing employees to work less hours than required could increase the duration of the project, ultimately increasing costs to the federal government. In addition, USAID paid \$320 for labor costs that were not incurred.

**Cause:** DAI did not have a written policy and procedure to monitor whether employees were meeting the required hours per day.

**Recommendation:** We recommend DAI:

1. Design, develop and implement a policy to ensure overseas and non-overseas employees are working the required minimum hours per day as stated in its contract with USAID; and
2. Reimburse the Government \$320 in questioned costs.

**DAI MANAGEMENT RESPONSE TO FINDING 2018-05: SUBCONTRACTORS WORKED LESS THAN CONTRACTUALLY REQUIRED**

**DAI does not concur with the Auditor's assertion that the requirement to work 40-hour weeks extends to subcontractor staff working on the contract on a part-time basis (Short-Term Technical Assistance). Section H.7(g) pertains to subcontractor staff engaged full-time on the subcontract and does not cover STTA.**

**David Grossman and Evgeniya Travers are not DAI direct hires, but employees of subcontractor ICMA providing short-term technical assistance to the SHAHAR project. They were not working on SHAHAR full time, and their workday was in accordance with the subcontractor's established policies and practices.**

**ICMA billed DAI based on the approved daily rates and hours shown in the employees' timesheets, i.e. 4.53 days for Grossman and 7.07 days for Travers. The total amount for these subcontractor employees were billed on actual hours worked based on a 7.5 hour work day and therefore the auditors recalculated \$320 difference based on an 8 hour minimum workday is unsubstantiated. In support of these labor costs, the subcontractor submitted timesheets showing hours worked and billed the employees' time in accordance with rates defined in the ICMA subcontract. Evidence of hours worked (approved timesheets, ICMA subcontract and budget) were provided to the Auditor as part of fieldwork and constitute adequate evidence of hours worked and costs incurred, per FAR 31.201-2(d). The questioned \$320 We therefore see no grounds for the Auditor's assertion that USAID paid for \$320 in labor costs that were not incurred.**

**All ICMA labor billings are in accordance with the terms and budget of the approved subcontract and the USAID-approved SHAHAR cost proposal. DAI did not reimburse the subcontractor for any time not worked on the contract and disagrees with this questioned cost finding.**

DAI believes that our management comments provided above properly address the identified deficiencies and reflects our commitment to implementing and ensuring adequate controls and compliance with relevant policies applicable regulations and will make sure to share and emphasize any lessons learned from any this audit to ensure that our policies, procedures and operations adequately addresses any identified deficiencies.

Please do not hesitate to contact DAI if you have any further questions, would require additional information, or wish to further discuss DAI responses provided in this letter.

Sincerely,

A handwritten signature in black ink that reads "Raul Pinto". The signature is written in a cursive style with a large initial "R".

Raul Pinto

Director, Internal Audit

301.771.7823

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## Appendix B: Auditor's Rebuttal

Crowe LLP ("Crowe") has reviewed DAI Global LLC's ("DAI" or "the Auditee") management response to the audit findings. In consideration of management's views, Crowe has included the following rebuttal to certain matters presented by the Auditee. A rebuttal has been included in those instances where management disagreed with the facts presented within the condition or otherwise did not concur with Crowe's recommendation. Management partially concurred with Findings 2018-02 and 2018-03 and the accompanying recommendations. DAI's management disagreed with Findings 2018-01, 2018-04, and 2018-05. DAI also disagreed with all questioned costs. Crowe's rebuttal and response to the findings follows.

### **FINDING 2018-01: NONCOMPLIANCE WITH THE NICRA G&A BASE OF APPLICATION**

DAI did not concur with the auditor's position that subcontractor costs should be classified as pass-through costs and, therefore, are ineligible for inclusion within the base of application for the approved General and Administrative (G&A) cost allocation. In their response, DAI indicated the base of application, which in previous USAID NICRA letters referred to "pass through other direct costs," was updated by USAID in July 2018 to clarify the language to "pass-through grants." DAI asserts that the July 2018 USAID NICRA letter allows for their inclusion of subcontractor costs in the base of application for the G&A allocation. DAI also notes the organization follows CAS 410 in the allocation of G&A Costs. CAS 410 does not address the inclusion of pass-through costs and is, therefore, irrelevant to the finding.

The period under audit precedes the July 2018 revised NICRA letter that changed the aforementioned base of application. Therefore, Crowe tested against the pre-July 2018 NICRA requirements that were in effect during the audit period. USAID provided an interpretation and policy clarification regarding the definition of pass through other direct costs during the audit and was provided a copy of the NICRA used for testing. Application of USAID's definition resulted in identification of DAI's noncompliance with the NICRA's requirements, which are incorporated by reference into the contract. Neither USAID nor the revised NICRA signed in July 2018 expressly stated that the revised base of application applies retroactively to prior years or supersedes the previous NICRAs.

DAI further asserted the SHAHAR budget included application of the G&A rate to a base including subcontractor other direct costs (ODCs), and, therefore, USAID approved DAI's approach. Whereas the contract's terms and conditions require compliance with the NICRA and evidence of USAID's having expressly authorized a deviation from the NICRA provisions was not provided, we do not concur that acceptance of the approved budget supports the deviation or otherwise justifies a revision to the finding.

Accordingly, those indirect costs charged to the contract resulting from noncompliance with the base of application requirements remain in question. The finding and related questioned costs remain.

### **FINDING 2018-02: UNCERTIFIED AND IMPROPERLY FORMATTED ANNUAL INVENTORY OF GOVERNMENT PROPERTY**

DAI partially concurred with the finding, but did not agree with the portion of the finding regarding the submission of inaccurate inventory information. DAI noted in their rebuttal that a reconciled inventory spreadsheet is included as part of the Annual Inventory of Government Property submission and thus supports the accuracy of the inventory information. However, Crowe obtained the original submission emails from DAI to USAID for both the 2016 and 2017 inventories and noted a reconciliation was not provided with the inventory.

In addition, the criteria noted in the finding specifies the form and data elements required for the inventory report. DAI asserts that USAID accepted the inventories; therefore, the inventories must have been compliant with these form and data requirements. However, DAI did not provide a waiver of the regulatory

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requirement from USAID. Accordingly, DAI did not comply with the provisions of AIDAR 752.245-70, and, therefore, the finding has not been changed.

**FINDING 2018-03: MATERIAL MISSTATEMENTS AND OMISSIONS IN THE SPECIAL PURPOSE FINANCIAL STATEMENT (“SPFS”)**

DAI noted that, although they agree with the finding, they do not agree the effect of the finding would negatively impact the reliability of financial reporting or increase the vulnerability of fraud in financial transactions, as well as affect the results reporting, grant awards, or the procurement of goods and services. As noted in the finding, DAI prepared multiple versions of the SPFS due to material errors and omissions identified by the auditor. These errors indicate that DAI’s financial reporting activities with respect to the SPFS are inadequately controlled. DAI states the errors do not materially impact the reliability of DAI’s financial reporting, or increase the vulnerability of fraud in financial transactions, results reporting, grants awards, or the procurement of goods or services. Whereas, Crowe did not indicate within the *effect* that an increase of vulnerability of fraud occurred with respect to grants awards or the procurement of goods or services, we do not take exception to management’s position. However, the SPFS serves as a mechanism to report results and accumulative financial transactions related to the contract under audit, failure to adequately control financial reporting remains a risk. Accordingly, this finding remains unchanged.

**FINDING 2018-04: INADEQUATELY SUPPORTED PROPERTY RECORDS**

DAI partially agreed with the finding. DAI noted that the value assigned to each property item was equal to the acquisition cost, and referenced FAR 52.245-1 as the regulation supporting this approach. FAR 52.245-1 is not applicable to DAI’s award, as the regulation is not incorporated within DAI’s contract. In addition, though requested, DAI did not provide documentation either during fieldwork or as part of its management response to support the exchange rate they used to value each of the sampled property items.

DAI also disagreed with Crowe’s conclusion, indicating the property records were inadequately supported. Specifically, Crowe indicated DAI’s records did not specify which country holds title to all individual property items, nor did the property records indicate the source of each property acquisition. Further, DAI did not provide additional supporting documentation during fieldwork or with its management response to indicate who holds title to each property item, and identifying the source of each purchase. No changes to the finding are necessary or appropriate.

**FINDING 2018-05: SUBCONTRACTORS WORKED LESS THAN CONTRACTUALLY REQUIRED**

DAI disagrees with the Auditor’s assertion that subcontractor employees are subject to the requirements of Section H.7(g) of DAI’s contract. Section H.7(g) of the contract notes that in no case may the number of hours be less than 8 hours per day or 40 hours per week. DAI states that their subcontractors hired these employees and that their hours charged to the program were subject to the subcontractor’s policies, not Section H.7(g) of DAI’s contract. However, we noted that Section H.7(g) of DAI was incorporated into the subcontract under which the employees performed their duties. As such, the subcontractor employees’ time records evidencing hours charged to the program were less than eight hours per day. Therefore, the finding and related questioned costs remain.

## Appendix C: USAID Required Annual Inventory Format

*Reporting Requirements:* The contractor will submit an annual report on all non-expendable property in a form and manner acceptable to USAID substantially as follows:

**ANNUAL REPORT OF GOVERNMENT PROPERTY IN CONTRACTOR'S CUSTODY**  
**[NAME OF CONTRACTOR AS OF (END OF CONTRACT YEAR), 20XX]**

	Motor vehicles	Furniture and furnishings -		Other nonexpendable property
		Office	Living quarters	
A. Value of property as of last report				
B. Transactions during this reporting period				
1. Acquisitions (add):				
a. Purchased by contractor <sup>1</sup>				
b. Transferred from USAID <sup>2</sup>				
c. Transferred from others, without reimbursement <sup>3</sup>				
2. Disposals (deduct):				
a. Returned to USAID				
b. Transferred to USAID - contractor purchased				
c. Transferred to other Government agencies <sup>3</sup>				
d. Other disposals <sup>3</sup>				
C. Value of property as of reporting date				
D. Estimated average age of contractor held property				
	Years	Years	Years	Years

## Appendix D: DAI Annual Inventory Submission

Number	Description	Expendable / Non-Expendable	Acquisition Method	Acquisition date	Disposal	Quantity	Unit Price (\$US)	Total (\$US)	Furnished by USAID AND Non-Expendable
1	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	03/09/2015	Not yet disposed	1.00	1,627.18	1,627.18	
2	GPS Enabled Camera	Expendable	Transferred from client	05/29/2013	Not yet disposed	1.00	238.00	238.00	
3	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/14/2014	Not yet disposed	1.00	1,627.18	1,627.18	
4	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/12/2014	Not yet disposed	1.00	1,662.17	1,662.17	
5	Laptop Computer HP EliteBook 14" 840 G1 Core i7	Non-expendable	Local procurement	03/29/2015	Not yet disposed	1.00	1,570.18	1,570.18	
6	Nokia 107 Dual SIM Cell phone	Expendable	Local procurement	03/03/2015	Not yet disposed	1.00	23.65	23.65	
7	Nokia 107 Dual SIM Cell phone	Expendable	Local procurement	05/04/2015	Not yet disposed	1.00	25.26	25.26	
8	Nokia 107 Dual SIM Cell phone	Expendable	Local procurement	03/10/2015	Not yet disposed	1.00	27.01	27.01	
9	Nokia 107 Dual Sim Cell Phone	Expendable	Local procurement	04/15/2015	Not yet disposed	1.00	22.00	22.00	
10	Nokia 107 Dual Sim Cell phone	Expendable	Local procurement	06/18/2015	Not yet disposed	1.00	22.00	22.00	
11	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/14/2014	Not yet disposed	1.00	1,627.18	1,627.18	
12	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	Local procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
13	Laptop Computer HP Elitebook 840G1	Non-expendable	DAI corporate procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
14	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
15	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
16	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
17	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
18	Laptop Computer HP Elite Book 840 G1 Core i7	Non-expendable	DAI corporate procurement	12/15/2014	Not yet disposed	1.00	1,627.18	1,627.18	
19	GPS Garmin	Expendable	Transferred from client	08/08/2012	Not yet disposed	1.00	163.00	163.00	
20	GPS Garmin	Expendable	Transferred from client	02/01/2012	Not yet disposed	1.00	163.50	163.50	

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## 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](http://www.sigar.mil)). SIGAR posts all publicly 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](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto: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](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202