



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

October 7, 2014

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

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

Mr. Aman S. Djahanbani  
Senior Procurement Executive  
U.S. Agency for International Development

Dear Administrator Shah, Mission Director Hammink, and Mr. Djahanbani:

I am writing to express my concerns regarding USAID/Afghanistan's recent decisions not to collect from implementing partners all of the costs questioned in SIGAR's financial audits. These questioned costs represent taxpayer dollars that, if not used to support the reconstruction of Afghanistan as intended, should be returned to the U.S. government. While we acknowledge USAID's authority to determine the allowability and recovery of questioned costs, recent trends in decisions raise some concerns. Specifically, we found in several instances that the contracting and agreement officer was providing implementing partners what seems to be an inordinate amount of time and preference in justifying costs that we had questioned. In two specific instances, the amount of funds that could have been recovered was actually reduced.

## Background

As part of our mission, we conduct audits of the costs incurred by implementing partners under contracts, grants, and cooperative agreements for reconstruction projects and activities in Afghanistan that are paid with appropriated funds. These financial audits are performed by independent public accounting firms under our direction. When the audits are completed, we send the results, along with recommendations, to USAID and the Departments of State and Defense. The Office of Management and Budget Circular A-50 requires agencies to ensure the prompt and proper resolution and implementation of monetary and non-monetary audit findings and recommendations.<sup>1</sup>

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<sup>1</sup> OMB Circular A-50, Audit Followup, dated September 29, 1982.

With regard to USAID/Afghanistan's process for resolving recommendations to recover questioned costs, contracting and agreement officers usually reach out to the contractors and implementing partners for input to our recommendations. If the contracting and agreement officer agrees that the questioned costs are not allowable, allocable, or reasonable, according to the terms of the contracts, cooperative agreements, or grants, the officer can request the contractors and implementing partners to reimburse the government for those questioned costs.

As of September 2014, SIGAR has issued 25 financial audits questioning \$74,555,813 in incurred costs and another \$182,978 in unremitted interest and other amounts charged to the U.S. government by implementing partners working in Afghanistan on behalf of USAID. In response, USAID/Afghanistan has provided sufficient evidence allowing us to close the recommendations made in 13 financial audits; these recommendations call for USAID/Afghanistan to determine the allowability and, if appropriate, the recovery of \$7,632,458 in questioned costs and \$122,814 in unremitted interest. Of this amount, contracting and agreement officers determined that only \$2,658,331 (or 34.3 percent) of the total amount of questioned amounts in the 13 audits were unallowable and, therefore, should be returned to the government.

### **USAID Gave Undue Consideration to its Implementing Partners and SIGAR Was Not Informed About USAID's Revised Decisions to Recover Questioned Costs Until After They Were Made**

In July 2014, we learned that the contracting and agreement officer revised two decisions to recover questioned costs expended under the contract with Tetra Tech ARD Inc. and a cooperative agreement with Counterpart International, Inc. (Counterpart). In both cases, the revised decisions were based on additional supporting documentation that Tetra Tech and Counterpart provided, of which we were not made aware. The decisions lowered the amount of unallowable costs by \$1,348,711.

#### **Tetra Tech ARD Inc.**

The contracting and agreement officer determined in November 2013 that \$2,639,207 out of \$3,041,819 in questioned costs was unallowable and that Tetra Tech ARD Inc. should return those funds to the government.<sup>2</sup> However, in April 2014, he reversed his decision and determined that only \$1,878,588 was unallowable and this amount should be returned.<sup>3</sup> According to the documentation SIGAR received three months later, the contracting and agreement officer based his revised decision on additional supporting documentation that Tetra Tech provided.

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<sup>2</sup> See SIGAR Financial Audit 13-09, *USAID's Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD*, July 18, 2013. The audit covered \$75,133,550 in expenditures charged under the contract from March 2008 to March 2011.

<sup>3</sup> Tetra Tech returned this amount to USAID on June 5, 2014.

In this instance, we believe that allowing five more months to provide additional supporting documentation seems inappropriate given that the company was informed of the audit in October 2012. In our view, Tetra Tech ARD Inc. had more than adequate time to provide us and USAID/Afghanistan the necessary supporting documentation.

We are also concerned that the contracting and agreements officer did not inform us of Tetra Tech's appeal, nor did he tell us about the reversed decision until *after* it was made. As part of the audit follow-up process, auditors should be afforded the opportunity to review any new documentation that could affect the audit's findings and conclusions.<sup>4</sup>

#### Counterpart International, Inc.

Similarly, the contracting and agreement officer determined in February 2014 that Counterpart should return to the government \$588,092 out of \$815,317 in questioned costs.<sup>5</sup> In March 2014, he sent a bill for collection. In April, Counterpart appealed the decision, stating that in an event beyond its control, a third party permanently lost the source records, including those central to the costs first questioned in the SIGAR audit and the lesser amount subsequently demanded by USAID.<sup>6</sup> The contracting and agreement officer subsequently reversed his decision and determined that all \$588,092 was allowable and that Counterpart did not have to reimburse the government. In making his decision, the contracting and agreement officer stated that, among other things, the cooperative agreement "is by essence a support of Counterpart itself" and given the fact that the records were lost, the previously unallowable amount was supported by affidavits from individuals directly involved in the cooperative agreement.

We believe the contracting and agreement officer's argument that "the cooperative agreement is by essence a support of [Counterpart] itself" is inaccurate. The objective of the cooperative agreement was to assist in the "expansion of a vibrant Afghan civil society" through capacity building and technical assistance, implementation of an enabling non-governmental organization law, and the award and administration of small grants to civil society organizations. It was not meant to support Counterpart, the organization. Moreover, whether the instrument involved is a cooperative agreement or a contract, USAID should require the recipient to fully and accurately account for all of the funds. The use of the cooperative agreement should not relieve USAID/Afghanistan of its stewardship of appropriated funds. We recognize that the loss of records may not have been Counterpart's fault, but we believe that affidavits from former staff about costs incurred under the cooperative agreement are weak substitutes for actual documentation because it is not reasonable to expect former employees to provide an accurate accounting of \$588,092 in questioned costs out of more than \$27 million in expenditures charged over the period of five years.

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<sup>4</sup> OMB Circular A-50 states that audit findings and recommendations are resolved when the audit organization and the agency management agree on action to be taken. In the event of disagreement, the Circular states that audit findings and recommendations are resolved when the audit followup official (in this case, SIGAR), determines the matter to be resolved.

<sup>5</sup> See SIGAR Financial Audit 14-15, *USAID's Initiative to Promote Afghan Civil Society Project: Audit of Costs Incurred by Counterpart International, Inc.*, January 3, 2014. The audit covered \$27,179,524 in expenditures charged under the agreement from January 2005 to September 2010.

<sup>6</sup> According to Counterpart, it had archived its records offsite with Recall Total Information Management, Inc., a document storage and retrieval company. Counterpart states that in June 2012, the storage company's warehouse collapsed, resulting in the death of one employee and archived materials.

Most disturbing to us, however, is that Counterpart's loss of records was known when the contracting and agreement officer was making his initial decision to recover questioned costs. It is unclear how the contracting and agreement officer revised his decision based on the same set of circumstances. As with the Tetra Tech example, we should have been afforded the opportunity to review Counterpart's justification for appeal, as we consider those to be part of the audit.

### Other Examples of Undue Consideration

In addition to the two examples with Tetra Tech and Counterpart, we also found other examples where USAID/Afghanistan, we believe, provided the implementing partners undue consideration.

- By granting repeated extensions, USAID has allowed the Central Asia Development Group, Inc. (CADG) more than 8 months (and counting) to provide additional supporting documentation for costs we questioned in a January 9, 2014, audit.<sup>7</sup> In response to the audit, the contracting and agreement officer requested that CADG provide a response to SIGAR's recommendation to determine the allowability and recovery (if appropriate) of \$7,853,478 in questioned costs and \$9,613 in interest. The agreement officer gave CADG a January 31, 2014, deadline to respond. The next day, CADG requested a 45-day extension to respond, which USAID approved the following day. On April 8 (67 days after the originally extended due date), CADG submitted documentation supporting the questioned costs, but according to the agreement officer, the documents received were insufficient to make a decision on the allowability of the questioned costs. Subsequently he requested additional documentation. CADG then asked for an extension to June 8. On the due date, it asked for an extension to July 31. The agreement officer declined the request, but instead gave CADG until July 15 to provide supporting documentation. On July 15, CADG provided additional information, but according to the agreement officer, the documentation was not in a useable format. At the time of writing this letter, the allowability, and potential recovery, of the questioned costs has not been determined.
- USAID/Afghanistan took about 14 months to determine that just \$216,000 of the \$25,149,243 in questioned costs incurred during Development Alternative, Inc.'s implementation of USAID's Alternative Livelihoods Program–Eastern Region were allowable.<sup>8</sup> Similarly, USAID/Afghanistan has not yet fully addressed recommendations made in the audit of costs incurred under the contract with Chemonics International, Inc, even though the report was issued in June 2013.<sup>9</sup>

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<sup>7</sup> See SIGAR Financial Audit 14-20, *USAID's Community Development Program: Audit of Costs Incurred by Central Asia Development Group, Inc.*, January 9, 2014. USAID/Afghanistan and CADG entered into a cooperative agreement to support the Community Development Program in Afghanistan.

<sup>8</sup> See SIGAR Financial Audit 13-10, *USAID's Alternative Livelihoods Program–Eastern Region: Audit of Costs Incurred by Development Alternatives, Inc.*, June 18, 2013. In his response, the contracting and agreements officer determined that Development Alternatives, Inc. provided additional supporting documentation that substantiated \$25,149,243 in incurred costs. Because the response was received on September 10, 2014, we have not had time to review the documentation to determine if they are sufficient to close our recommendations.

<sup>9</sup> See SIGAR Financial Audit 13-1, *Audit of Costs Incurred by Chemonics International, Inc. in Support of USAID's Alternative Livelihoods Program–Southern Region*, June 6, 2013. In a July 2014 response, the contracting and agreements officer stated that he is still reviewing some of the questioned costs.

By accepting millions of dollars to implement projects and programs on behalf of the U.S. government, implementing partners should be able to provide documentation to support an audit contemporaneously. Allowing implementing partners inordinate amount of time to substantiate the costs incurred increases the risks that documentation may be falsified. Because the examples we noted reduced the amount of funds that the government could have recovered, I am requesting answers to the following questions:

1. In general, what criteria does USAID use to reverse decisions to recover questioned costs?
2. What criteria do contracting and agreements officers use to grant extensions of time for implementing partners to provide documentation supporting costs incurred?
3. In instances where decisions to recover questioned costs are reversed, why is SIGAR not provided an opportunity to review the new supporting documentation?

Please provide your response no later than October 21, 2014. I am submitting this request pursuant to my authority under Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended. Please provide the requested information to Mr. Ryan T. Coles, Assistant Inspector General for Audits and Inspections at [REDACTED].

Thank you for your cooperation. I look forward to your response and working with you in support of our nation's critical mission in Afghanistan.

Sincerely,



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction