

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 14-39 Financial Audit**

USAID's Strategic Provincial Roads Program: Audit of Costs  
Incurred by International Relief and Development, Inc.



F E B R U A R Y  
2014



SIGAR

Office of the Special Inspector General  
for Afghanistan Reconstruction

February 25, 2014

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

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

This letter transmits the results of our audit of costs incurred by International Relief and Development, Inc. (IRD) under a U.S. Agency for International Development (USAID) cooperative agreement to provide support for the Strategic Provincial Roads (SPR) program.<sup>1</sup> The audit, performed by Mayer Hoffman McCann P.C. (MHM), covered the period November 30, 2007, through December 31, 2012, and total expenditures of \$317,448,948.

The objective of USAID's SPR program was to improve stability and security in eastern and southern Afghanistan by rehabilitating provincial roads and increasing institutional capacity to maintain the rehabilitated roads. IRD was required to construct 1,863.4 kilometers of gravel roads in 12 eastern and southern Afghan provinces. The program also had an outreach component with a budget of \$32.4 million that included (1) arranging memoranda of understanding with tribal leaders; (2) training and safety awareness programs; and (3) a range of infrastructure development projects to enhance the vitality of the roads.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of IRD's Special Purpose Financial Statement;<sup>2</sup>
- determine and report on whether IRD has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in IRD's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of their audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed MHM's audit results and found them to be in accordance with generally accepted government auditing standards.

MHM issued a qualified opinion on the fair presentation of the Special Purpose Financial Statement because of the identification of \$14,179,351 of questioned costs, which represents a material misstatement. MHM identified two prior audit findings pertinent to the SPR program and found that IRD had not taken adequate corrective action to address one of them.<sup>3</sup> MHM reported 12 internal control deficiencies and 10 instances of

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<sup>1</sup> USAID cooperative agreement number 306-A-00-08-00509-00.

<sup>2</sup> The Special Purpose Financial Statement is a financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

<sup>3</sup> The prior finding related to controls over payments to subcontractors. MHM noted a similar condition in its finding 2013-4 and, as a result, concluded that adequate corrective action had not been taken.

noncompliance, which prompted the auditors to question \$14,179,351 in costs. These questioned costs included \$2,580,239 in ineligible costs<sup>4</sup> and \$11,599,112 in unsupported costs.<sup>5</sup> See table 1.

**Table 1 - Summary of Questioned Costs**

Category	Questioned Costs Total	Ineligible	Unsupported
Road Rehabilitation	\$12,134,909	\$2,248,935	\$9,885,974
Community Outreach and Capacity Building	\$1,570,049	\$41,201	\$1,528,848
Management and Administration	\$474,393	\$290,103	\$184,290
Totals	\$14,179,351	\$2,580,239	\$11,599,112

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

1. Determine the allowability of and recover, as appropriate, \$14,179,351 in questioned costs identified in the report.
2. Advise IRD to address the 12 internal control findings identified in the report.
3. Advise IRD to address the 10 compliance findings identified in the report.

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-012)

<sup>4</sup> Ineligible costs are unreasonable, prohibited by the audited contract or applicable laws and regulations, or not award-related. Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for review by USAID to make a final determination regarding allowability.

<sup>5</sup> Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

## 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.

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- Phone International: +1-866-329-8893
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## Public Affairs

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