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.

FEBRUARY 2014

SIGAR 14-39-FA/ SPR Program

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.[1] 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;[2]
- 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.[3] MHM reported 12 internal control deficiencies and 10 instances of

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[1] USAID cooperative agreement number 306-A-00-08-00509-00.
[2] 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.
[3] 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[4] and $11,599,112 in unsupported costs.[5] 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)

[4] 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.
[5] Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

For the Period November 30, 2007 through December 31, 2012

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

For the Period November 30, 2007 through December 31, 2012

Table of Contents

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

For the Period November 30, 2007 through December 31, 2012

SUMMARY

Background

The Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under Cooperative Agreement No. 306-A-00-08-00509-00 (Agreement) between International Relief and Development, Inc. (IRD) and the United States Agency for International Development (USAID) for the period November 30, 2007 through December 31, 2012.

On November 30, 2007, USAID awarded the Agreement to IRD in the amount of $399,999,346, of which $136,000,000 was obligated and $500,000 was a non-Federal cost-sharing amount. The initial period of performance was through December 31, 2010. This Agreement has been modified 15 times increasing the total amount of the Agreement to $497,535,342, of which $320,585,689 has been obligated.

The purpose of Agreement was to conduct activities focused on supporting a regional roads program for eastern and southern Afghanistan by constructing approximately 1,863.4 kilometers of engineered gravel roads in 12 southern and eastern provinces of Afghanistan through the Strategic Provincial Roads (SPR) Program. The roads to be rehabilitated were identified by USAID in association with the U.S. Military and local and national government of Afghanistan entities. In addition to the rehabilitation of provincial roads, special development assistance components, such as capacity building and community development activities were sought to maximize the impact of the roads and ensure sustainability of the rehabilitated roads.

The core objective of the Agreement was to assist USAID to increase stability and security in Eastern and Southern Afghanistan by rehabilitating provincial roads and increasing institutional capacity to:

1. Facilitate efficient movement of goods and people;
2. Increase access to government and social services, such as education and health care;
3. Decrease ethnic divisions between regions;
4. Facilitate development of the agriculture sector;
5. Improve regional integration, security and stability;
6. Increase capacity for sustainable road construction, rehabilitation and maintenance; and
7. Provide employment opportunities for local Afghans.

In addition to pure road construction, IRD had a significant outreach component built into the SPR program with a budget of approximately $32.4 million. Outreach activities included (1) arranging Memoranda of Understandings with tribal leaders along each road; (2) training and safety awareness programs; and (3) a range of infrastructure development projects to enhance the vitality of the road while still meeting the core objectives. The latter included agricultural initiatives, water well construction, micro-grants for small business start-ups, and other programs developed in cooperation with each community.

SUMMARY

Subsequently, USAID descoped numerous roads within the project as they were deemed unlikely to be finished during the award period. Some of the challenges to timely completion included the technical and resource limits of IRD's subcontractors, insufficient time to rebid projects, and/or high security risks at some project locations. IRD requested, and was granted, an extension of the closeout period of the Agreement through September 30, 2013.

Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

- *Internal Controls* – Evaluate and obtain a sufficient understanding of IRD's internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

- *Compliance* – Perform tests to determine whether IRD complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

- *Corrective Action on Prior Audit Recommendations* – Determine and report on whether IRD has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether the SPFS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and outstanding balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Scope

The scope of this audit included all costs incurred during the period November 30, 2007 through December 31, 2012 under the Agreement. Our testing of overhead costs was limited to determining that the overhead costs charged were calculated using the correct final negotiated overhead rate or provisional overhead rate, as applicable for the given fiscal year, as approved by USAID.

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

For the Period November 30, 2007 through December 31, 2012

SUMMARY

Methodology

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held via conference call on March 7, 2013 with representatives from MHM, IRD, SIGAR and USAID participating.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of IRD;
- Reviewed the Agreement and modifications;
- Reviewed regulations specific to USAID that are applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based upon our approved sampling techniques. According to the approved sampling plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessed included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in number of transactions and more homogeneous in nature, we selected a statistical sample of the costs. The sample size tested was based upon a 95% confidence level with 5% maximum tolerable error rate. The sample was selected on a random basis. All other cost categories and/or accounts for which it was not appropriate to select a statistical sample, we selected the sample on a judgmental basis. Our sampling methodology for judgmental samples is as follows:

    - For accounts that appeared to contain unallowable and restricted items according to the terms of the contract and Office of Management and Budget (OMB) Circular A-122 cost principles and any other applicable regulations, we tested 100% of the transactions.
    - For high risk cost categories, we sampled at least 50% of the dollar value of the account.
    - For medium risk cost categories, we sampled at least 20% of the dollar value of the account.

SUMMARY

- For low risk cost categories, we sampled 10% of the dollar value of the account, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

For those cost categories and/or accounts that were selected on a statistical basis, we calculated an error rate and projected the results to the population. If the results for a judgmental sample indicated a material error rate, our audit team consulted with the Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of a judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

For management and administration, although the entire cost category was assessed to be high risk, it was made up of several different accounts. We reviewed the individual accounts that comprised management and administration from a risk perspective, based upon dollar value of the account and/or nature of expenses included in the account. Those individual accounts deemed to be high risk were judgmentally sampled at high risk levels. For salaries and wages, we noted that there were in excess of 10,000 employees. In order to obtain a representative sample of salaries and wages, we separated the total population into strata based upon calendar quarter. A statistical sample of employees was selected across all strata.

- Subcontracted the physical inspection of a sample of roads and interviews of IRD's subcontractors to an independent chartered public accounting firm with an office located in Kabul, Afghanistan.

Internal Control Related to the SPFS

We reviewed IRD's internal controls related to the SPFS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Agreement and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

SUMMARY

Corrective Action on Prior Audit Recommendations

We requested all prior audit reports and recommendations in order to evaluate the status of the prior audit recommendations by reviewing evidence of any corrective actions taken. See the Review of Prior Audit Recommendations subsection of this Summary for a status of applicable prior findings.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable.

Exit Conference

An exit conference was held on August 6, 2013 via conference call. Participants included MHM, IRD, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit.

Summary of Results

Our audit of the costs incurred by IRD under the Agreement with USAID identified the following matters:

Auditor's Opinion on SPFS

We issued a qualified opinion on the fairness of the presentation of the SPFS based upon the identification of $14,179,351 of questioned costs, which represents a material misstatement of the SPFS. Included within this questioned cost amount was the loss of Federal funds totaling $41,201 resulting from an employee theft and non-clearance of the employee's advance. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

SUMMARY

Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations, including 22 CFR 226 and OMB Circular A-122. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows.

Ineligible Costs

- Settlement of a claim and incurring costs after a Termination for Default was issued were charged to the Agreement under the road rehabilitation cost category. Total ineligible costs were $1,982,100. See Finding 2013-3 in the Findings and Responses section of this report.

- Road rehabilitation costs in the amount of $266,835 were incurred subsequent to the completion of the period of performance. See Finding 2013-4 in the Findings and Responses section of this report.

- IRD had a theft of federal funds in the amount $114,584. IRD subsequently received an insurance reimbursement in the amount of $80,500, which it used to reduce a future claim. The net theft of $34,084, inclusive of associated indirect costs, was $41,201. See Finding 2013-5 in the Findings and Responses section of this report.

- Costs in the amount of $239,962 related to programs other than the Strategic Provincial Roads (SPR) program were charged to the Agreement. See Finding 2013-6 in the Findings and Responses section of this report.

- Indirect costs in the amount of $45,256 were incorrectly charged as a direct cost. See Finding 2013-7 in the Findings and Responses section of this report.

- Non-allowable entertainment expenses in the amount of $4,885 were charged to the Agreement. See Finding 2013-10 in the Findings and Responses section of this report.

Unsupported Costs

- Procurement practices related to the road rehabilitation projects were not consistently followed, which resulted in questioned costs of $7,378,362. See Finding 2013-1 in the Findings and Responses section of this report.

SUMMARY

- IRD reported Road #11 as complete when photographs indicated it was not complete resulting in $3,233,921 of questioned costs. See Finding 2013-2 in the Findings and Responses section of this report.

- Lack of approvals for road rehabilitation costs in the amount of $795,716 resulted in questioned costs. See Finding 2013-4 in the Findings and Responses section of this report.

- IRD could not provide records, or provided insufficient records, to support transactions selected for testing in the road rehabilitation and management and administration cost categories, resulting in total questioned costs of $186,684. See Finding 2013-8 in the Findings and Responses section of this report.

- IRD disposed of 12 assets totaling $2,676 for which there was no record of disposal, 3 assets totaling $1,130 which were lost, and 5 assets totaling $623 which were damaged. The total cost of the disposed, lost and/or damaged assets was $4,429. The disposition, loss, and/or damage of these assets was not communicated to USAID. See Finding 2013-11 in the Findings and Responses section of this report.

Total questioned costs as a result of our audit are as follows:

Ineligible costs	$ 2,580,239
Unsupported costs	11,599,112
Total questioned costs	$14,179,351

Internal Control Findings

Internal control findings are classified into three categories: deficiency, significant deficiency, and material weakness. 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 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the SPFS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

For the Period November 30, 2007 through December 31, 2012

SUMMARY

Material Weaknesses

The following material weaknesses were reported:

Finding Number	Internal Control Finding – Material Weaknesses	Auditee's Concurrence
2013-1	Procurement practices related to the road rehabilitation projects were not consistently followed, which resulted in questioned costs of $7,378,362.	Disagree
2013-2	IRD reported Road #11 as complete, but recent photographs suggest otherwise, resulting in $3,233,921 of questioned costs.	Disagree
2013-3	Settlement of a claim and costs incurred after a Termination for Default resulted in $1,982,100 in questioned costs.	Disagree
2013-4	Road rehabilitation costs in the amount of $266,835 were incurred after the period of performance of the subcontract. Additionally, road rehabilitation costs in the amount of $795,716 were paid without proper approvals.	Disagree
2013-5	IRD had a theft of federal funds which was charged to the Agreement in the net amount of $41,201.	Disagree
2013-6	IRD charged $239,962 for costs that were not related to the Agreement.	Disagree
2013-7	IRD charged $45,256 as direct costs to the SPR program that should have been booked as indirect costs.	Disagree

Significant Deficiencies

The following significant deficiencies were reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-8	IRD could not provide records, or provided insufficient records, to support transactions selected for testing in the road rehabilitation and management and administration	Disagree

SUMMARY

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
	cost categories, resulting in total questioned costs of $186,684.	
2013-9	IRD did not maintain required documentation, such as progress reports, pre-award conference minutes and contractual modifications, which were either not signed or not submitted timely, for selected COCB grants and road rehabilitation costs.	Agree
2013-10	Unallowable entertainment expenses in the amount of $4,885 were charged to the Agreement.	Partially Agree
2013-11	IRD did not retain support for disposed, lost and damaged equipment totaling $4,429, nor notify USAID of the status of the equipment.	Disagree
2013-12	Prior to October 2010, IRD did not conduct reviews of the Excluded Parties List System in order to identify vendors that may be suspended, debarred or otherwise excluded from receiving Federal funds.	Agree

Deficiencies

No deficiencies were reported.

The complete management responses from IRD to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of SPFS. The results of our tests disclosed the following compliance findings as described in the Findings and Responses section of this report.

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

For the Period November 30, 2007 through December 31, 2012

SUMMARY

Finding Number	Compliance Finding	Auditee's Concurrence
2013-1	Procurement practices related to the road rehabilitation projects were not consistently followed, which resulted in questioned costs of $7,378,362.	Disagree
2013-2	IRD reported Road #11 as complete, but recent photographs suggest otherwise, resulting in $3,233,921 of questioned costs.	Disagree
2013-3	Settlement of a claim and costs incurred after a Termination for Default resulted in $1,982,100 in questioned costs.	Disagree
2013-4	Road rehabilitation costs in the amount of $266,835 were incurred after the period of performance of the subcontract. Additionally, road rehabilitation costs in the amount of $795,716 were paid without proper approvals.	Disagree
2013-6	IRD charged $239,962 for costs that were not related to the Agreement.	Disagree
2013-7	IRD charged $45,256 to SPR direct expenses; however these charges should have been recorded as an indirect cost.	Disagree
2013-9	IRD did not maintain required documentation, such as progress reports, pre-award conference minutes and contractual modifications, which were either not signed or not submitted timely, for selected COCB grants and road rehabilitation costs.	Agree
2013-10	Unallowable entertainment expenses in the amount of $4,885 were charged to the Agreement.	Partially Agree
2013-11	IRD did not retain support for disposed, lost and damaged equipment totaling $4,429, nor notify USAID of the status of the equipment.	Disagree
2013-12	Prior to October 2010, IRD did not conduct reviews of the Excluded Parties List System in order to identify vendors that may be suspended, debarred or otherwise excluded	Agree

SUMMARY

Finding Number	Compliance Finding	Auditee's Concurrence
	from receiving Federal funds.	

The complete management responses from IRD to each of the compliance findings can be found in Appendix A to this report.

Summary of IRD's Responses to Findings

The following represents a summary of the responses provided by IRD to the audit and findings identified in this report. The complete responses received can be found in Appendix A to this report.

- IRD provided general management responses to the audit indicating: (1) Finding 2013-10 and 2013-11 should not be classified as significant deficiencies; (2) the finding identified in the Review of Prior Findings and Recommendation section of this report regarding expenditures that were recorded in the period paid instead of the period incurred is not within the scope of this audit; and (3) the finding identified in the Review of Prior Findings and Recommendation section of this report regarding controls over approval of payments to subcontractors not being resolved is incorrect since none of the findings in this report included the same condition.

- Finding 2013-1: IRD disagrees with the finding and recommendations for several reasons. For road rehabilitation projects, IRD indicated that evidence was provided to show either the construction projects were awarded to the highest ranked bidder, or justification to explain why the highest ranked bidder was not selected was documented. For COBC Subgrants, IRD indicated the grants were awarded following the evaluation process and criteria described in the solicitation document and that it was awarded on a best value award instead of cost, and there is no requirement that the subgrant must be awarded to the lowest bidder. For COBC Contracts, IRD indicated that sufficient documentation and justification was provided as to why the contracts were awarded to the subcontractors. Finally, for management and administration costs, IRD indicated that its procurement process was properly followed and was in accordance with procurement guidelines set forth by USAID and/or IRD.

- Finding 2013-2: IRD disagrees with the finding and recommendations. It believes that the photographs depicted in the audit report cannot be verified as there is no proof to substantiate the location of where the photographs were taken. In addition, there is a lack of proof that the depth or density of the base course layer was inspected. Finally, IRD indicated that at the completion of the road construction, the road was inspected by

SUMMARY

the Ministry of Public Works in Afghanistan, USAID, and a third party technical engineering consultant. Additionally, given that the auditor's inspection occurred two years after the completion of the road, the road might be deteriorated and there exists contemporaneous evidence depicting the progress and completion of the road. IRD also states that they completed the "punch list" provided by the third party engineering consultant, and that USAID accepted the completed road.

- Finding 2013-3: IRD disagrees with various components of the finding and recommendations. It indicated that the cost for unpaid construction work was verified prior to the submittal of the termination for settlement. In addition, IRD states that this claim settlement was noted as already paid in progress payments, and not included in the contractor's final termination settlement.

- Finding 2013-4: IRD disagrees with the finding and recommendations for various reasons including the period of performance was extended, approval for payment applications were obtained, and proper approvals from all levels of management were not obtained due to staff turnover or relocation.

- Finding 2013-5: IRD disagrees with the finding and recommendations. It indicated only $75,000 of the $114,584 was due to the theft, and the remaining questioned amount represented legitimate expenses or were never charged to the SPR program. Additionally, the $75,000 was credited to the SPR project in December 2010. Finally, it disagrees that IRD's internal control over cash was not adequate since the dollar amount of the loss is immaterial.

- Finding 2013-6: IRD disagrees with the recommendation. It indicated that the amount it misclassified and incorrectly posted was correctly reclassified and posted subsequent to the audit period.

- Finding 2013-7: IRD disagrees with the finding and recommendation. It indicated the cost in question was not included in both the indirect cost pool and as a direct cost of the project, but rather it was an indirect cost that was erroneously charged as direct cost. Also, the amount was properly reclassified to the indirect cost pool subsequent to the audit period.

- Finding 2013-8: IRD disagrees with various components of this finding. It provided further clarification and explanations as to why the documentation was missing or insufficient.

- Finding 2013-9: IRD agrees to the finding and recommendation and that it could make improvement in its records management system.

SUMMARY

- Finding 2013-10: IRD disagrees that all costs questioned were prohibited entertainment expenses as some of the costs represented food purchased for staff as normal life support, and the fact that it was purchased on a holiday does not make the food costs ineligible.

- Finding 2013-11: IRD disagrees with the finding indicating that 22 CFR 22.2 defines equipment as having an acquisition cost of $5,000 or more.

- Finding 2013-12: IRD agrees with the finding. Beginning in 2010, the SPR projects began verifying all third party purchases and services in the Excluded Party List System (EPLS) system, and that policies and procedures were incorporated into the IRD procurement policy.

Review of Prior Findings and Recommendations

We reviewed the corrective actions taken to address findings and recommendations from previous engagements that could have a material effect on the SPFS. There were two prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified two findings with a potential material effect on the SPFS. Based upon our review, adequate corrective action was implemented on one of the two prior findings.

Single Audit Act Report

IRD provided its Single Audit Act Report for the year ended December 31, 2011. One significant deficiency was noted whereby IRD recorded certain expenditures on a cash basis instead of on an accrual basis. IRD has revised its procedures to ensure that all expenses are recorded in the period the expense is incurred as opposed to the period in which the expense was paid. Based upon our audit, IRD is properly recording expenses on the accrual basis of accounting. As such, the corrective action has been adequately implemented.

USAID/Office of Inspector General (OIG) Financial Audit of Local Costs for SPR-SEA Program for Period October 1, 2009 to September 30, 2010

USAID's OIG contracted with an independent audit firm to conduct a financial audit of the Fund Accountability Statement for the period October 1, 2009 through September 30, 2010. The OIG's audit contained two scope limitations, one in that the roads could not be physically inspected, and the second in that there was no line item budget available. Both of these scope limitations were removed in our audit in that we physically observed a sample of the roads, and

SUMMARY

we utilized the high level budget contained in the Agreement for purposes of determining spending limitations.

The results of the USAID OIG audit identified one significant deficiency related to controls over the approval of payments to subcontractors. We noted a similar condition as documented in Finding 2013-4 in the Finding and Responses section. As such, the corrective action implemented was not adequate to address this deficiency.

MHM
Mayer Hoffman McCann P.C.
An Independent CPA Firm
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
International Relief and Development, Inc.
1621 North Kent Street
Arlington, Virginia 22209

INDEPENDENT AUDITORS' REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of International Relief and Development, Inc. (IRD) under Cooperative Agreement No. 306-A-00-08-00509-00 (Agreement) with the United States Agency for International Development (USAID) for the period November 30, 2007 through December 31, 2012, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditors' 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except as it relates to continuing education and peer review requirements as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years that directly relates to governmental auditing, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of conducting interviews of subcontractors of IRD and physically observing the existence of a sample of roads, which we judgmentally selected. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not likely affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

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

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

Basis for Qualified Opinion

We identified several transactions totaling $14,179,351 that were questionable based upon our review of the underlying support for the specified transactions. Included within this questioned cost amount was the loss of Federal funds totaling $41,201 resulting from an employee theft and non-clearance of the employee's advance. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by IRD under the Agreement for the period November 30, 2007 through December 31, 2012 in accordance with the basis of accounting described in Note 2.

Board of Directors
International Relief and Development, Inc.
1621 North Kent Street
Arlington, Virginia 22209

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 5, 2014 on our consideration of IRD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 IRD's internal control over financial reporting and compliance.

Restriction on Use

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

Irvine, California
February 5, 2014

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.
Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

Special Purpose Financial Statement

For the Period November 30, 2007 through December 31, 2012

	Budget	Actual	Questioned Costs: Ineligible	Questioned Costs: Unsupported	Questioned Costs: Total	Notes
Revenues:						
306-A-00-08-00509-00	$ 497,535,342	$ 317,448,948	$ -	$ -	$ -	(4)
Total revenues	497,535,342	317,448,948	-	-	-	
Costs incurred:						
Road rehabilitation	387,478,154	205,787,450	2,248,935	9,885,974	12,134,909	(A)
Community outreach and capacity building	32,397,780	23,895,747	41,201	1,528,848	1,570,049	(B)
Management and administration	77,659,408	87,765,751	290,103	184,290	474,393	(C)
Total costs incurred	497,535,342	317,448,948	2,580,239	11,599,112	14,179,351	
Outstanding balance	$ -	$ -	$ (2,580,239)	$ (11,599,112)	$ (14,179,351)	(9)

See Notes to Special Purpose Fund Accountability Statement
and Notes to Questioned Costs Presented on Special Purpose Fund Accountability Statement

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

Notes to Special Purpose Financial Statement[1]

For the Period November 30, 2007 through December 31, 2012

(1) Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under Cooperative Agreement 306-A-00-08-00509-00 for the period November 30, 2007 through December 31, 2012 (excluding entries posted after IRD submitted SF-425 to USAID). Because the SPFS presents only a selected portion of the operations of IRD, it is not intended to and does not present the financial position, changes in net assets, or cash flows of IRD. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned cooperative agreement. As such, the SPFS does not contain any entries related to the SPR program that may have been recorded in the 2012 IRD accounting period 13 and included in the IRD Holdings Audited Consolidated Financial Statements. Therefore, some amounts presented in this Statement will differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations.*

(3) Foreign Currency Conversion Method

For purposes of preparing the SPFS, IRD applies an average monthly rate based upon the bank rates used to transfer funds between U.S. dollar account and Afghanis account (the local currency).

(4) Revenues

As of December 31, 2012, IRD has reported $317,448,948 in revenue. This revenue equals total expenditures reported to USAID on the December 31, 2012 SF-425. For the period November 30, 2007 through December 31, 2012, IRD has drawn a total of $290,239,689 from its USAID issued letter of Credit.

[1]The Notes to the Special Purpose Financial Statement are the responsibility of IRD.

(4) Revenues (Continued)

As of December 31, 2012, there was an outstanding receivable due from USAID in the amount of $27,209,259. This receivable consisted of pending claim settlements with road subcontractors for approximately $25,962,678, and an additional $1,246,581 in other accrued expenses for which funds have not been drawn from the Federal letter of credit as of December 31, 2012.

(5) Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved Agreement budget.

(6) Currency

All amounts presented are shown in U.S. dollars, the reporting currency of IRD. Costs incurred in a foreign country and recorded in a foreign currency have been converted to U.S. dollars consistent with IRD's foreign currency conversion policy.

(7) Status of Financial Reporting to USAID

The SPFS, as presented, reflects all SF-425s submitted to USAID as of December 31, 2012. The Agreement has not been closed and costs continue to be incurred.

(8) Indirect Costs

IRD has claimed indirect costs totaling $22,555,806 for the period November 30, 2007 through December 31, 2012. The indirect costs are not included as a separate line item on the SPFS, but are included as a component of each cost category presented. The negotiated indirect rates were as follows. IRD did not have an approved final rate for 2012 as of December 21, 2012. As such, IRD continues to use the approved provisional rate for 2012.

(8) Indirect Costs (Continued)

Type	Effective Period From	Effective Period Through	Fringe Benefits (a)	Overhead (b)
Final	01/01/07	12/31/07	44.31%	18.79%
Final	01/01/08	12/31/08	47.34%	18.89%
Final	01/01/09	12/31/09	41.60%	20.88%
Final	01/01/10	12/31/10	41.85%	22.38%
Provisional	01/01/11	12/31/11	41.51%	23.50%
Proposed	01/01/12	12/31/12	41.51%	23.50%

The basis of allocation for the indirect costs is as follows:

(a) Total regular U.S. labor costs

(b) Total cost incurred excluding overhead, capital expenditures of $5,000 and greater, project vehicle purchases, in-kind contribution of goods and services, all subawards in excess of $25,000 (regardless of the period covered by the subawards).

(9) Outstanding Fund Balance

As of December 31, 2012, there was no outstanding fund balance under the Agreement as the SPFS is prepared under the accrual basis of accounting as described in Note 2.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

Notes to Questioned Costs Presented on Special Purpose Financial Statement[2]

For the Period November 30, 2007 through December 31, 2012

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(A) Road Rehabilitation Questioned Costs

IRD reported road rehabilitation costs in the amount of $205,787,450 for the period November 30, 2007 through December 31, 2012. IRD was required to construct 48 roads under the Agreement. During our review of these costs, we noted the following which resulted in questioned costs:

		Questioned Costs		
Finding Number	Observation	Ineligible Costs	Unsupported Costs	Total
2013-1	Lack of adherence to procurement procedures including lack of competitive bidding and documentation for award decisions	$ -	$5,836,070	$5,836,070
2013-2	Incomplete road construction	-	3,233,921	3,233,921
2013-3	Costs incurred after termination notice and inadequately supported costs	1,982,100	-	1,982,100
2013-4	Costs incurred after period of performance and costs not properly approved	266,835	795,716	1,062,551
2013-8	No support for Third Country National salaries and wages	-	20,267	20,267
	Total questioned costs	$2,248,935	$9,885,974	$12,134,909

Details of the specific observations noted can be found in the specific findings in the Findings and Responses section of this report.

(B) Community Outreach and Capacity Building Questioned Costs

IRD reported Community Outreach and Capacity Building (COCB) costs in the amount of $23,895,747 for the period November 30, 2007 through December 31, 2012. During our review of these costs, we noted the following which resulted in questioned costs:

[2]The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

(B) Community Outreach and Capacity Building Questioned Costs (Continued)

Finding Number	Observation	Questioned Costs Ineligible Costs	Questioned Costs Unsupported Costs	Total
2013-1	Lack of adherence to procurement procedures including lack of competitive bidding and documentation for award decisions	$ -	$1,528,848	$1,528,848
2013-5	Lack of adequate cash disbursement controls resulting in employee theft	41,201	-	41,201
	Total questioned costs	$41,201	$1,528,848	$1,570,049

Details of the specific observations noted can be found in the specific findings in the Findings and Responses section of this report.

(C) Management and Administration Questioned Costs

IRD reported management and administration costs in the amount of $87,765,751 for the period November 30, 2007 through December 31, 2012. During our review of these costs, we noted the following which resulted in questioned costs:

Finding Number	Observation	Questioned Costs Ineligible Costs	Questioned Costs Unsupported Costs	Total
2013-1	Lack of adherence to procurement procedures including lack of competitive bidding and documentation for award decisions	$ -	$ 13,444	$ 13,444
2013-6	Non-SPR expenses charged to the Agreement	239,962	-	239,962
2013-7	Indirect costs charged as direct costs	45,256	-	45,256
2013-8	Missing or insufficient documentation provided to support costs claimed	-	166,417	166,417
2013-10	Entertainment expenses were charged to the Agreement	4,885	-	4,885
2013-11	Lack of support for disposed, lost and/or damaged assets	-	4,429	4,429
	Total questioned costs	$290,103	$184,290	$474,393

(C) **Management and Administration Questioned Costs (Continued)**

Details of the specific observations noted can be found in the specific findings in the Findings and Responses section of this report.

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
International Relief and Development, Inc.
1621 North Kent Street
Arlington, Virginia 22209

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 of the International Relief and Development, Inc. (IRD) representing revenues received and costs incurred under Cooperative Agreement No. 306-A-00-08-00509-00 with the United States Agency for International Development (USAID) for the period November 30, 2007 through December 31, 2012, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 5, 2014, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years that directly relates to governmental auditing, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years . We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of conducting interviews of subcontractors of IRD and physically observing the existence of a sample of roads, which we judgmentally selected. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not likely affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered IRD's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of IRD's internal control. Accordingly, we do not express an opinion on the effectiveness of IRD's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Findings and Responses, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's Special Purpose Financial Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Findings and Reponses as Findings 2013-1 through 2013-7 to be material weaknesses. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Findings 2013-1, 2013-2 and 2013-5.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2013-8 through 2013-12 to be significant deficiencies.

IRD's Response to Findings

IRD's response to the findings identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. IRD's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the IRD'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.

Additionally, this report is intended for the information of International Relief and Development, Inc., USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Irvine, California
February 5, 2014

Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

REPORT ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

Board of Directors
International Relief and Development, Inc.
1621 North Kent Street
Arlington, Virginia 22209

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 of the International Relief and Development, Inc. (IRD) representing revenues received and costs incurred under Cooperative Agreement No. 306-A-00-08-00509-00 with the United States Agency for International Development (USAID) for the period November 30, 2007 through December 31, 2012, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 5, 2014, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years that directly relates to governmental auditing, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years . We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of conducting interviews of subcontractors of IRD and physically observing the existence of a sample of roads, which we judgmentally selected. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not likely affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IRD's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned cooperative agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Findings 2013-1, 2013-2, and 2013-5. 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 Findings and Responses as Findings 2013-1 through 2013-4, 2013-6, 2013-7 and 2013-9 through 2013-12.

IRD's Response to Findings

IRD's response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. IRD's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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 internal control. Accordingly, this communication is not suitable for any other purpose.

Additionally, this report is intended for the information of International Relief and Development, Inc., USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Mayer Hoffman McCann P.C.

Irvine, California
February 5, 2014

2013-1: Lack of Adherence to Procurement Procedures

Condition:
IRD was unable to provide records, or provided insufficient records, to support the procurement efforts within the following accounts that are reported in the Community Outreach and Capacity Building (COCB), Road Rehabilitation, and Management and Administration cost categories, resulting in the following questioned costs:

Road Rehabilitation

Observation	Questioned Costs
Road #18 – Mest to Yahya Khel to Ghundekay Road (Development Organization for the Revival of Afghanistan (DORA)): The Memorandum of Negotiations (MON) was not printed on IRD letterhead, as other MONs were, and lacked proper authorization, and thus was deemed to be unreliable. In addition, competitive bidding procedures were not properly followed and there was no justification as to why the contract was not awarded to the subcontractor with the highest technical and cost score. Had the highest scoring bid been selected, the average cost per KM would have been $120,295 for a 21 KM road. Applying this average cost to the fully-rehabed length of 21KM, the estimated cost to complete this length of road would have been $2,526,200. As the total costs paid to DORA for completion of 21 KM were $7,245,133, the difference of $4,718,933 has been questioned.	$4,718,933
Road #36 – Tirin Kot Junction to Khas Urzgan (Afghan Omid Construction Company): There was no Memorandum of Negotiations in the procurement file. Based upon evaluation sheets retained, the contract was not awarded to the highest ranked bidder. Competitive bidding procedures were not properly followed and there was no justification as to why the contract was not awarded to the subcontractor with the highest score. The total length of road to be built was 106 KM. However, because USAID descoped the program, no KMs were completed. As such, we have questioned all costs associated with this road.	1,117,137
Total questioned road rehabilitation costs	$5,836,070

2013-1: Lack of Adherence to Procurement Procedures (Continued)

COCB

Observation	Number of Errors	Questioned Costs
Subgrants:		
No justification for awarding contract to other than the bidder with the highest technical and cost score	3	$1,152,630
Contracts:		
No evidence of competitive bidding before IRD requested that the contract be awarded	1	355,338
Total COCB questioned costs	4	$1,507,968

Management and Administration

Observation	Number of Errors	Questioned Costs
Office equipment:		
Competitive bids solicited, but documents not retained	1	$10,800
Office utilities:		
No evidence as to why contract was not awarded to lowest bidder	1	500
Total questioned management and administration	2	$11,300

Total questioned cost due to lack of adherence to procurement procedures are $7,355,338.

Cause:
IRD management did not adequately monitor its procurement efforts by requiring decisions regarding award to be clearly documented when a subcontract was awarded to a bidder other than the one with the highest score.

Criteria:
22 CFR 226.46, *Procurement records,* states in part:

> "Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:

2013-1: Lack of Adherence to Procurement Procedures (Continued)

> "(a) Basis for contractor selection,
>
> (b) Justification for lack of competition when competitive bids or offers are not obtained, and
>
> (c) Basis for award cost or price.."

Additionally, 22 CFR 226.43, *Competition,* states, in part:

> "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition…Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered…"

IRD Procurement Policy Manual, Section 10, *Competition Process for Procurements of $150,000 and Above*, states, in part:

> "…10.1 IRD shall utilize competitive procedures to the most practicable extent when procuring goods and/or services…"

Additionally, IRD Procurement Policy Manual, Section 10.7, *Award*, states, in part:

> "10.7.1 After technical evaluation is complete, award will be made to the lowest responsible offeror or to the offeror with the most advantageous solution to fulfill the needs of IRD, price and other factors considered as may be stated in the RFA/RFP…
>
> 10.7.5 Sole Offer – Non-Competitive Award – In cases where only one technically acceptable offer is received, IRD will conduct price and/or cost analysis and negotiations to get the most advantageous price…
>
> 10.7.9 In the case where only one qualified offer is received , and no adequate competition exists, IRD may conduct additional negotiations with the qualifying offeror
>
> 10.7.10 All of the above processes and final results will be documented in Final Source Selection Memorandum (See Form D), which will depict the elements discussed and explain the basis for determination that the price is fair and reasonable…"

2013-1: Lack of Adherence to Procurement Procedures (Continued)

Effect:
Lack of adherence to procurement procedures can result in the acquisition of goods and/or services that are not competitively priced. In a hostile environment, adherence to procurement policies and procedures is critical in order to ensure funds expended were reasonable, allowable and allocable. Additionally, failure to document the rationale for awarding subcontracts to other than the highest scoring bidder raises concerns that fraud may have occurred within the procurement function. Total questioned costs, including associated indirect costs, are as follows:

Cost Category	Questioned Cost	Associated Indirect Cost	Total Questioned Cost
Road rehabilitation	$5,836,070	$ -	$5,836,070
COCB	1,507,968	20,880	1,528,848
Management and administration	11,300	2,144	13,444
Total questioned costs	$7,355,338	$23,024	$7,378,362

Recommendation:

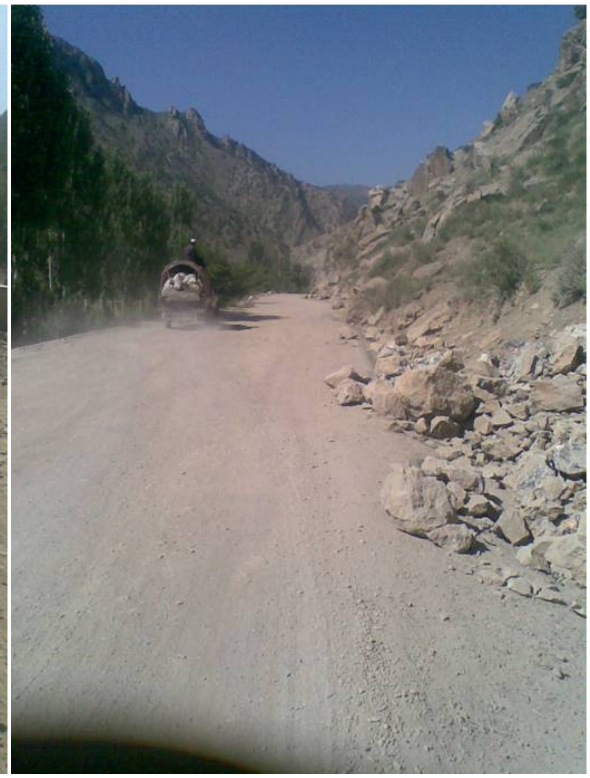
(1) We recommend that IRD provide evidence of competitive bidding and proper procurement practices to USAID or return $7,378,362 for failure to follow procurement procedures.

(2) We recommend that IRD implement procedures to ensure a review of procurement files is conducted to ensure that its procurement procedures are being followed.

2013-2: Road Construction Incomplete Per Physical Observation

Condition:
According to the IRD Final Roads Rehabilitation Status Report issued in December 2011, Road #11, Hassan Kel to Ster Village Road, a final inspection of the road was conducted by both IRD and an outside consulting firm, Tetra Tech, on April 21, 2011, and the road was accepted as complete effective March 31, 2011. The final status for this road is "Complete Full Rehabilitation", including 100% completion of an Aggregate Base Course which would be equivalent to a final Surface Course. According to the Agreement, the road was to be constructed to an all-weather gravel standard. The construction activities were to include raising the existing ground level, preparing the road bed to improve the sub-grade, filling and compaction, and rehabilitation of existing drainage systems to improve drainage. Based upon a physical observation of the entire road in June 2013, the road does not appear to have been completed in accordance with the requirements of the Agreement. The following photographs are representative of the condition of the entire road.

2013-2: Road Construction Incomplete Per Physical Observation (Continued)



These photographs were taken by employees of HLB Ijaz Tabussum. The photographs depict the roads as being graded dirt roads and not all-weather gravel roads. An all-weather gravel road would contain a layer of gravel on its surface. This layer of gravel is clearly missing in the photographs. Although the photographs were taken approximately 2 years after the completion of the road, the average useful life of a gravel road is approximately 15 years. Given the environmental conditions of Afghanistan, the useful life would be less, but it would still be greater than 2 years. Total costs incurred for Road #11 were $3,233,921.

Cause:
Based upon physical inspection of the road, it appears that IRD misrepresented the completeness of the road in its Final Roads Rehabilitation Status Report for Road #11.

2013-2: Road Construction Incomplete Per Physical Observation (Continued)

Criteria:
Cooperative Agreement No. 306-AA-00-08-00509-00, Section B.3, *Program Activities*, states, in part:

> "…This program will center on rehabilitating an estimated 1,500 to 2,000 kilometers of roads to an all-weather gravel standard…."

Additionally, Cooperative Agreement No. 306-AA-00-08-00509-00, Section B.3, *Program Activities*, Paragraph a., *General Program Parameters*, states, in part:

> "…(3) Environmental Considerations…
>
> The main construction activities include raising the existing ground level, roadbed preparation to improve the sub-grade, filling and compaction, and rehabilitation of existing drainage systems to improve drainage…"

Effect:
Misrepresenting the status of a road as complete to an all-weather gravel standard when photographs indicate it is a dirt road does not allow IRD to demonstrate to USAID that funds were used for their intended purposes. Additionally, misrepresentations in the reporting of the status of roads raises concerns that fraud may have occurred within the road rehabilitation portion of the program. As we were not provided with the costs for the various stages of the road rehabilitation to identify the costs for the portion of the road not completed, we have questioned the entire amount of the road.

Recommendation:
We recommend that IRD either provide evidence to USAID that Road #11 was constructed as required per the Agreement or to return $3,233,921 to USAID for the incomplete construction of the road.

2013-3: Inadequately Supported Road Rehabilitation Costs

Condition:
The following observations were made as part of a review of the construction files for a sample of roads:

Observation	Questioned Cost
Road #20 – Yahya Khel to Baki Khel to Khayr Kot Road (Blue Koshar JV Company):	
Invoice payment application #27 was for the settlement of a claim related to the descoping of the project, but was also included in the final progress payment for the period of June 25, 2011 through July 25, 2011. No documentation was provided to indicate that this payment was not claimed twice. This cost has been deemed ineligible.	$ 12,590
Road #27 – Shah Wali Kot to Nesh (Afghan Wardak Construction Company):	
Two cure notices were issued to this subcontractor for deficiencies cited related to road construction activity. A Termination for Default dated 12/18/10 was also issued. Two months after the Termination for Default was issued, it was modified to a Termination for Convenience by the new Chief of Party. Additional project costs continued to be incurred. No supporting documentation was provided as to why the change in the type of termination notice was made. All construction costs incurred after the original Termination for Default that was issued on 12/18/10 have been questioned. This cost has been deemed ineligible.	1,969,510
Total ineligible road rehabilitation costs due to inadequate supporting documentation	$1,982,100

Cause:
The submission of a claim termination settlement was inadvertently included with the standard invoice processing and approved for payment due to a management oversight. IRD was unable to explain why the Termination for Default was changed to a Termination for Convenience as it did not maintain documentation that supported its rationale for these decisions.

2013-3: Inadequately Supported Road Rehabilitation Costs (Continued)

Criteria:

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

> "…2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:
>
> a. Be reasonable for the performance of the award and be allocable thereto under these principles;…
>
> c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;…
>
> g. Be adequately documented...."

22 CFR 226.53, *Retention and access requirement for records,* states, in part:

> "…(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID…"

Effect:
Lack of adequate support for costs incurred does not allow IRD to demonstrate that USAID funds were used for intended purposes. Additionally, including unpaid construction work with progress payments that is being proposed in a final termination settlement could result in an overpayment of costs. Based upon the actual results of our testing, costs in the amount of $1,982,100 were questioned.

Recommendation:

(1) We recommend that IRD either provide an explanation including supporting documentation to USAID as to how the identified expenses relate to the SPR program or return $ 1,982,100 for ineligible road rehabilitation costs.

2013-3: Inadequately Supported Road Rehabilitation Costs (Continued)

(2) We recommend that IRD provide internal training to its personnel to emphasize the importance of record retention, as well as issue guidance to all personnel requiring them to adhere to its record retention policies to ensure that all documentation supporting costs incurred is properly maintained.

2013-4: Payments Lacking Proper Approval and for Periods Beyond the Period of Performance

Condition:
Invoices and Payment Application Requests did not consistently contain evidence of management review and approval prior to payment. Additionally, some invoices were paid for services rendered after the end of the period of performance. Specifically, the following observations were noted:

Observation	Questioned Cost
Road #6 – Azra to Shizard (Azad Construction Company): The subcontractor was terminated for convenience on 4/7/11, with all work to be completed by 6/15/11. However, a final invoice in the amount of $193,814 was submitted as a progress payment for this project for the period 7/15/11 through 8/14/11 without any approval to extend the project period. As such, these construction costs have been deemed ineligible as they were incurred after the project completion date of 6/15/11.	$ 193,814
Road #9B – Kolalgu to Gardez (FMCC-THEC-HCG Joint Venture): The subcontractor's Payment Application Request #15 did not contain the required approvals from the IRD Contract Manager and the DCOO-Roads Manager prior to payment. As such construction costs billed in the amount of $269,851 are deemed unsupported due to a lack of proper approvals.	269,851
Road #16 – Jaghuri to Malistan (Combat Construction Company): A review of Payment Application Request #10 noted that proper approvals were not obtained as the Construction Manager signed as the Project Manager, Regional Manager and Construction Manager. As such, construction costs billed in the amount of $294,047 have been deemed unsupported due to a lack of proper approvals.	294,047
Road #20 – Yahya Khel to Baki Khel to Khayr Kot Road (Blue Kosher JV Company): Contract modification #5 extended the final completion date for this contract to 6/15/11. However, a review of Payment Application request #26 in the amount of $73,021 noted that costs were incurred under this contract for the period 6/25/11 through July 25, 2011 without any approval to extend the project period. As such, these construction costs have been deemed ineligible as they were incurred after the project completion date of 6/15/11.	73,021

2013-4: Payments Lacking Proper Approval and for Periods Beyond the Period of Performance (Continued)

Observation	Questioned Cost
Road #27 – Shah Wali Koi to Nesh (Afghan Wardak Construction Company):	
A review of Payment Application Request #6 noted that proper approvals were not obtained as the Regional Manager signed as the Project Manager, Regional Manager and Construction Manager. As such, construction costs billed in the amount of $231,818 have been deemed unsupported due to a lack of proper approvals.	$ 231,818
Total questioned road rehabilitation costs	$1,062,551

These questioned costs have been classified as follows:

Ineligible costs	$ 266,835
Unsupported costs	795,716
Total questioned costs	$1,062,551

Cause:
This condition occurred due to IRD management not effectively implementing and monitoring its subcontractors' invoice payment approval process. Additionally, management did not effectively monitor its subcontracts for period of performance which allowed certain payments to be made to subcontractors for services rendered after the periods of performance.

Criteria:
22 CFR 226.51, *Monitoring and program performance*, states, in part:

> "(a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award…"

Additionally, IRD's Internal *Procedure for Approving Subcontractor Applications for Payment*, states in part:

> "…(4) Once the payment application is uploaded in Primavera Contracts Manager (CM), Project Controls will do a preliminary review to make sure the documentation is meeting all contract requirements. The payment application is also checked to assure it is free of mathematical errors…

2013-4: Payments Lacking Proper Approval and for Periods Beyond the Period of Performance (Continued)

> "(6) If the payment application does not meet all Contract requirements, it is rejected through CM and a new review cycle for that payment requisition is created.
>
> (7) Once the payment application is cleared by Project Controls, the payment application is forwarded to the construction department for the Team Leaders and Project Managers to review quantities…
>
> (9) Payment Application is sent to Contracts for final approval after it is approved by the Road Department.
>
> (10) After approval, the Payment application is returned to Project Controls for final processing.
>
> (11) Project Controls will review to assure the payment application package includes all the required documentation before approving it in the submitted module…"

Furthermore, the IRD *Program Controls Process Chart* indicates that once the payment requisition is approved, the Regional Program Manager is responsible for gathering approval signatures and returning to Document Controls for further payment processing.

Effect:
Payments not properly reviewed and approved, and costs incurred outside of the period of performance does not allow IRD to demonstrate that USAID funds were used for intended purposes. Based upon the actual results of our testing, costs in the amount of $1,062,551 were questioned.

Recommendation:

(1) We recommend that IRD either provide an explanation including supporting documentation to USAID as to how the identified expenses relate to the SPR program or return $266,835 for ineligible costs related to inadequately approved invoices and costs incurred beyond the period of performance.

(2) We recommend that IRD either provide USAID the missing or insufficient documentation or return $795,716 for unsupported costs related to inadequately approved invoices and costs incurred beyond the period of performance.

2013-4: Payments Lacking Proper Approval and for Periods Beyond the Period of Performance (Continued)

(3) We recommend that IRD provide internal training to its personnel to emphasize the importance of its cash disbursement approval process and require its personnel to adhere to its cash disbursement approval process to ensure that all invoices are reviewed and approved by authorized individuals prior to payment.

(4) We recommend that IRD provide training to its management regarding the timing of services rendered in relation to a subcontract's period of performance and disallowing all costs incurred that are beyond the period of performance.

2013-5: Lack of Adequate Cash Disbursement Controls

Condition:
IRD disclosed that during the period of August 2009 through October 2009, a former COCB Regional Coordinator for the IRD Eastern Region in Afghanistan stole $75,000 in IRD funds that were intended for the execution of several COCB grants activities. IRD made repeated attempts to locate the individual with no success. IRD concluded that the individual had disappeared and there would be no chance of recovering the missing funds. The IRD Finance Department also determined that an additional $34,084 was transferred to this individual through a money dealer in October 2009 for other grant activities for which no receipt from the intended community was sent to IRD. The grants were designated by IRD as Capacity Building Small Grant (CBSG) – Fixed Obligation Grant (FOG). The IRD Finance Department has also acknowledged that this individual received employee advances totaling $5,500 during his tenure as the Southeastern Regional Coordinator. These advances were never cleared by the employee submitting valid receipts or other documentation to support that the travel did occur. Questioned costs associated with this theft are as follows:

Description	Questioned Cost
COCB::	
CBSG-FOG-09-105 (Goats Distribution in Kharmanai Community)	$ 25,000
CBSG-FOG-09-107 (Goats Distribution in Mula Fateh Community)	25,000
CBSG-FOG-09-108 (Goats Distribution in Sikandar Khail Community)	25,000
CBSG-FOG-038 (Construction of water wells in Tor Shara)	4,924
CBSG-FOG-09-065 (Tailoring Vocational Training for Balzai Comm)	9,720
CBSG-FOG-09-070 (Tailoring Vocational Training for Hukum Zai Comm)	9,720
CBSG-FOG-09-067 (Tailoring Vocational Training for Mando Khel Comm)	9,720
Total questioned COCB costs	109,084
Management and administration:	
Employee advances without clearance before termination of employment	5,500
Total questioned management and administration costs	5,500
Total questioned costs due to lack of adequate cash disbursement controls	$114,584

2013-5: Lack of Adequate Cash Disbursement Controls (Continued)

IRD received an insurance reimbursement related to the theft in the amount of $80,500 as follows. IRD credited this amount to the project so that a subsequent request for reimbursement Was reduced by the amount of the insurance reimbursement.

COCB reimbursement	$75,000
Management and administration reimbursement	5,500
Total insurance reimbursement	$80,500

Cause:
IRD relied on the integrity of its employees to deliver large sums of cash to villages for their use, which created opportunities for theft. The employees were traveling to regions that were not deemed safe for expatriate staff travel. At the time, there were no banks, paying agents, or other viable ways to safely transport the funds to the community leaders. As such, controls such as dual custody of cash, were lacking once the cash was given to the employee to deliver.

Criteria:
OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, Subpart C, *Post-Award Requirements, Financial and Program Management*, Paragraph ___.21 states, in part:

> "…(b) Recipients financial management systems shall provide for the following:…
>
> (3) Effective control over and accountability for all funds…"

IRD Operations Manual, Volume 3, Field Offices Finance and Accounting, Chapter 2, Paragraph 2.5.1, *Financial Responsibilities of Field Offices*, states, in part:

> "A. Corporate Policy on Business Conduct and Code of Conduct
>
> 1. It is IRD's policy that all staff, consultants, sub-contractors and sub-grantees conduct activities morally, ethically, and in the spirit of public accountability and transparency…
>
> a. No funds or assets will be used for any unlawful or improper purpose…
>
> h. Payments/cash transactions will be made only into and from IRD Headquarters-approved back accounts…

2013-5: Lack of Adequate Cash Disbursement Controls (Continued)

> "n. Country Directors or Chiefs of Party are responsible for disseminating this policy to all employees in their respective offices and for instituting and maintaining a program to ensure that employees understand IRD's standards of ethical conduct.
>
> o. IRD requires its employees to abide by the foregoing standards of ethical behavior…
>
> B. Internal Control…
>
> 5. Close supervision by the Finance Manager and oversight by the Country Director or Chief of Party are vital to ensure that control systems are working and that weaknesses will be identified and corrected."

Additionally, IRD Operations Manual, Volume 3, Field Office Finance and Accounting, Chapter 3, *Cash Management,* Section 3.2., *Policy*, states, in part:

> "B…adequate controls must be maintained to minimize risk of funds being lost or stolen…"
>
> D. IRD will required that field offices minimize loss of cash...The most effective way to minimize loss of cash…is to minimize the number of cash transactions…Checks or bank transfers should be used in place of cash whenever possible. In countries without strong banking establishments or traditions, Field Offices should consult with the CFO concerning alternative payments systems to be taken with adequate internal accounting controls…"

Furthermore, IRD Operations Manual, Volume 3, Field Office Finance and Accounting, Chapter 6, Paragraph 6.5.4, *Employee Travel Expense Reimbursement*, states, in part:

> "G. IRD employees, including field offices will follow the following procedures:…
>
> 5. Expense Advance:…
>
> b. Before receiving the next payroll check, the employee will liquidate the advance by accounting for the actual expenses incurred, completing a travel and entertainment form attaching originals of supporting documentation…

2013-5: Lack of Adequate Cash Disbursement Controls (Continued)

> "c. Monthly, the Manager Payroll Accounting, will reconcile advances to the Advance Ledger and will follow up with the supervisor/employee on advances which have not been liquidated, in a timely fashion…"

Effect:
Failure to adequately safeguard cash and weak controls over the handling of cash resulted in the theft of Federal funds. The total theft was $114,584, exclusive of associated indirect costs. IRD received an insurance reimbursement of $80,500, for which IRD reduced a subsequent claim for reimbursement. This resulted in a net loss of $34,084 included in the COCB cost category, exclusive of associated indirect costs. Indirect costs were originally claimed on the full amount of the theft. The associated indirect costs of $7,117 are added to the amount of the theft not recovered by insurance. This resulted in total ineligible costs of $41,201.

Recommendation:

(1) We recommend that IRD either provide evidence that the amount of loss and associated indirect costs were deducted from claims, or return $41,201 for theft of federal funds.

(2) We recommend that IRD improve its internal controls to reduce the opportunity of theft of federal funds.

2013-6: Non-SPR Expenses Charged to the Agreement

Condition:
In addition to the SPR program, which is funded by the Agreement, IRD operates other programs that are funded by other resources. IRD incorrectly charged various expenses related to other programs including Afghanistan Vouchers for Increased Production in Agriculture (AVIPA), Human Resource and Logistical Support II (HRLS II) and the Kabul Electric Service Improvement Program (KESIP) to the SPR program as follows. These non-SPR expenses were claimed for reimbursement as management and administration costs under the Agreement.

Expense	Number of Errors	AVIPA	HRLS II	KESIP	Total
Travel – per diem and lodging	6	$123,796	$22,275	$4,879	$150,950
Expatriate house rent	1	17,200	-	-	17,200
Utilities	1	6,800	-	-	6,800
Communications	4	3,137	-	-	3,137
Meetings/conferences	2	-	289	-	289
Consultants	8	19,890	-	-	19,890
Total ineligible expenses	22	$170,823	$22,564	$4,879	$198,266

Subsequent to the audit period, IRD prepared a journal entry reclassifying the costs to the correct program.

Cause:
The consultants cost of $19,890 was inadvertently charged in error to the SPR program due to administrative oversight. The remaining $150,933 in incorrect consultants charges, plus the other costs identified in the condition above, was caused by a change in accounting systems, whereby certain posting of program expenses were incorrectly charged to the SPR program. In contract year 2009, IRD Headquarters (HQ) migrated to its new general ledger system known as Costpoint. A QuickBooks accounting system was used in the Afghanistan field office to accumulate transactions that were reported to IRD HQ for posting to Costpoint. Prior to the migration to Costpoint, the field office would charge the project/expense and IRD HQ would ensure that the correct cost center was charged at the HQ level in the old G/L system. This process changed with the transition to the new Costpoint G/L system. The field office should have recorded costs related to other projects to a clearing account and IRD HQ would subsequently clear these transactions and post to the correct cost centers. Since the field office did not use the clearing account, at the time these transactions were passed to the HQ Costpoint G/L, they were incorrectly charged to the SPR project code. IRD has since converted its Afghanistan field projects to the CostPoint general ledger system. As such, IRD is no longer using QuickBooks.

2013-6: Non-SPR Expenses Charged to the Agreement (Continued)

Criteria:
OMB Circular A-122, Attachment A, Paragraph A, *Basic Considerations*, Subparagraph 4, *Allocable costs*, states, in part:

> "a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
>
> (1) Is incurred specifically for the award…"

Effect:
Of the 76 transactions sampled, 22 transactions (28.95%), were related to programs other than the SPR program. IRD's inability to properly connect expenses to the correct award increases concerns about its cost allocation procedures and its ability to operate Federal awards. As these transactions were identified on a sample basis, there is a potential that other non-SPR expenses were also incorrectly charged to the Agreement. When the associated indirect costs are applied, total ineligible management and administration costs are as follows:

Non-SPR expenses charged to Agreement	$198,266
Associated indirect costs	41,696
Total ineligible management and administration costs	$239,962

Recommendation:
We recommend that IRD provide evidence to USAID supporting that an entry was made to reclassify the costs to the proper program and that subsequent requests for reimbursement were reduced, or return $239,962 for ineligible expenses.

2013-7: Indirect Costs Charged as Direct Costs

Condition:
The following expenses should have been recorded as indirect costs. However they were charged as SPR direct costs, resulting in costs being improperly classified to the Agreement:

Expense	Number of Errors	Total
Travel – transportation	3	$ 1,060
Travel – per diem and lodging	3	33,072
Communications	6	2,585
Meetings/conferences	1	722
Total ineligible expenses	13	$37,439

Subsequent to the audit period, IRD prepared a journal entry reclassifying the costs to the correct cost category.

Cause:
Due to a change in accounting systems, certain posting of indirect expenses were incorrectly charged as direct expenses to the SPR program. In contract year 2009, IRD HQ migrated to its new general ledger system known as Costpoint. A QuickBooks accounting system was used in the Afghanistan field office to accumulate transactions that were reported to IRD HQ for posting to Costpoint. Prior to the migration to Costpoint, the field office would charge the project/expense and IRD HQ would ensure that the correct cost center was charged at the HQ level in the old G/L system. This process changed with the transition to the new Costpoint G/L system. The field office should have recorded costs related to other projects to a clearing account and IRD HQ would subsequently clear these transactions and post to the correct cost centers. Since the field office did not use the clearing account, at the time these transactions were passed to the HQ Costpoint G/L, they were incorrectly charged to the SPR project code instead of as an indirect cost. IRD has since converted its Afghanistan field projects to the CostPoint general ledger system. As such, IRD is no longer using QuickBooks.

Criteria:
OMB Circular A-122, Attachment A, *General Principles*, Paragraph C, *Indirect Costs*, states, in part:

> "…1. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective…"

2013-7: Indirect Costs Charged as Direct Costs (Continued)

Additionally, OMB Circular A-122, Attachment A, *General Principles*, Paragraph B, *Direct Costs*, states, in part:

> "1…a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost…"

Effect:
Costs charged as direct costs that should have been charged to the Agreement as indirect costs caused an overstatement of the SPR direct expenses. IRD's inability to properly identify direct and indirect expenses increases concerns about its cost allocation process and its ability to operate Federal awards. As these transactions were identified on a sample basis, there is a potential that other indirect expenses may also have been charged as direct expenses. When the associated indirect costs are applied, total ineligible management and administration costs are as follows:

Indirect costs charged as direct costs	$37,439
Associated indirect costs	7,817
Total ineligible management and administration costs	$45,256

Recommendation:
We recommend that IRD provide evidence to USAID supporting that an entry was made to reclassify the costs to the proper cost category and that subsequent requests for reimbursement were reduced, or return $45,256 for ineligible expenses.

2013-8: Missing or Insufficient Source Documentation to Support Expenses

Condition:
IRD could not provide records, or provided insufficient records, to support transactions selected for testing in the road rehabilitation and management and administration cost categories, resulting in the following questioned costs:

Observation	Number of Errors	Amount
Road rehabilitation:		
No supporting documentation provided for Third Country National salaries and wages	2	$ 12,276
Total questioned road rehabilitation costs	2	12,276
Management and administration:		
No supporting documentation provided for consultant costs	3	15,750
No supporting documentation provided for base used for bonus allocated to SPR Program	1	57,598
Employee agreement was not approved by Chief Administrative Officer thus rates of pay not approved	6	16,428
Timesheets were not approved by supervisor thus hours worked were not approved	5	30,685
Total questioned management and administration costs	15	120,461
Total unsupported or insufficiently supported transactions	17	$132,737

Cause:
IRD did not adhere to record retention requirements as evidenced by no support provided for Third County National salaries and wages, consultant costs and missing Rest and Relaxation Request Approval Forms. IRD did not consistently review and approve timesheets and employee agreements due to a lack of management oversight. Additionally, IRD does not have a bonus policy that provides for a consistent methodology for calculating a bonus.

2013-8: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Criteria:
For those transactions for which no supporting documentation was provided, 22 CFR 226.53, *Retention and access requirement for records,* states, in part:

> "…(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID…"

Additionally, the IRD Operations Manual – Finance and Accounting, Volume 2, Chapter 6, Paragraph 6.5.1, *Accounts Payable*, states, in part:

> "A. The Manager, General Accounting, or designate accountant will prepare a payment request. The request will be supported by hard copies of accounts payable documentation including: supplier invoices, packing slip, purchase order, requisition, receiving report, and authorization of acceptance of goods and supplies…"

For those transactions for which timesheets were not approved, the IRD Operations Manual – Finance and Accounting, Volume 2, Chapter 4, Paragraph 4.5.2, *Timekeeping and Labor Distribution*, states, in part:

> "…F. Each employee will prepare his/her time sheet on the 15th and the end of the month…
>
> c. Submit the completed timekeeping record to the supervisor/manager for approval…"

OMB Circular A-122, Attachment B, Paragraph 8, *Compensation for personal service*, states, in part:

> "…m. Support of salaries and wages.
>
> (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports…

2013-8: Missing or Insufficient Source Documentation to Support Expenses (Continued)

"(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members…"

Effect:
Failure to maintain all records and obtain required approvals as required by the terms of the Agreement and subcontracts can result in IRD's inability to demonstrate that projects were completed and USAID funds were used for their intended purpose. Total questioned costs are as follows:

Cost Category	Questioned Cost	Associated Indirect Cost	Total Questioned Cost
Road rehabilitation	$ 12,276	$ 7,991	$ 20,267
Management and administration	120,461	45,956	166,417
Total questioned costs	$132,737	$53,947	$186,684

Recommendation:

(1) We recommend that IRD either provide the missing documentation to USAID or return $186,684 for missing or insufficient source documentation to support expenses.

(2) We recommend that IRD provide internal training to its personnel to emphasize the importance of record retention, as well as issue guidance to all personnel requiring them to adhere to its record retention policies to ensure that all documentation supporting costs incurred is properly maintained.

(3) We recommend that IRD document its bonus policy and establish procedures that bonuses are calculated and paid in accordance with the policy.

2013-9: Failure to Maintain Adequate Records

Condition:
IRD did not maintain required documentation for COCB grants and road rehabilitation projects. In addition, modifications for the road rehabilitation projects were either not signed in a timely manner or not signed by the subcontractor and/or IRD responsible personnel. Various exceptions were noted as follows:

COCB Contracts

- Blue Berry Corporation – No documentation was retained for monthly progress reports as required by the terms of the contract. Additionally, pre-award conference minutes were not retained in the contract file.

- Wilbur Smith Associates – Pre-award conference minutes were not retained in the contract file.

- Combat Construction Company – No documentation was retained for monthly progress reports as required by the terms of the contract. Additionally, pre-award conference minutes were not retained in the contract file.

- Social Development & Legal Rights – No documentation was retained for the mid-term progress report as required by the terms of the contract.

Road Rehabilitation Projects

- Road #5 – Shinwar to Dur Baba (Azad Construction Company):
  - A review of contract modifications for this road noted that contract modification #1 dated November 20, 2008, was not timely signed until January 15, 2009; contract modification #2 was not signed by the subcontractor; contract modification #5 not signed by either the subcontractor or IRD.
  - Pre-award conference minutes not retained in contract file.

- Road #6 – Azra to Shizard (Azad Construction Company):
  - A review of contract modifications for this road noted that contract modification #1 dated November 20, 2008 was not signed until January 15, 2009, contract modification #2 was not signed by the subcontractor, and contract modification #4 was not signed by either the subcontractor or IRD.
  - 4 out of 6 monthly progress reports, required per terms of contract, were not maintained in the contract file. As such, it cannot be determined if such progress reports were completed.
  - Pre-award conference minutes not retained in contract file.

2013-9: Failure to Maintain Adequate Records (Continued)

- Road #9B – Kolagu to Gardez (FMCC-THEC-HCG Joint Venture):
  - A total of 5 monthly progress reports, required per terms of contract, were not maintained in the contract file. As such, it cannot be determined if such progress reports were completed.
  - No minutes for the IRD construction team evaluations were retained in the contract file.

- Road #16 – Jaghuri to Malistan (Combat Construction Company):
  - Contract modification #2, dated December 1, 2009, was not signed until July 6, 2010.

- Road #18 – Mest to Yahya Khel to Ghundekay Road (Development Organization for the Revival of Afghanistan):
  - Contract modification #1, dated November 20, 2008, was not signed until February 7, 2009.

- Road #20 – Yahya Khel to Baki Khel to Khayr Kot Road (Blue Koshar JV Company):
  - Contract modification #2 was not signed by the subcontractor.
  - Contract modification #4, dated March 9, 2011, was not signed until May 1, 2011.

- Road #30 – Bahka to Manuf (Ashnapal Construction Company):
  - Pre-award conference minutes were not retained in contract file.
  - 1 monthly progress report was not maintained in contract file. As such, it cannot be determined if such progress report was completed.
  - Contract modification #3 was not signed by the subcontractor.

- Road #34 – Garmser to Lashkar Gah Road (Development Organization for the Revival of Afghanistan DORA):
  - Contract modification #5 was not signed by either IRD or the subcontractor.

- Road #36 – Tirin Kot Junction to Khas Urzgan (Afghan Omid Construction Company):
  - Contract modification #2 was not signed by IRD.
  - Contract modification #3 was not signed by the subcontractor.
  - Monthly progress reports for the months of June, July, August and September 2009, required per terms of contract, were not maintained in contract file. As such, it cannot be determined if such progress reports were completed.
  - Pre-award conference minutes were not retained in the contract file.

- Road #37 – Chora to Gizab (International Construction Management Company):
  - Pre-award conference minutes were not retained in the contract file.

2013-9: Failure to Maintain Adequate Records (Continued)

- Road #38 – Khas Uruzgan to Malistan (Afghan Wardak Construction Company):
  - Pre-award conference minutes were not retained in the contract file.
- Road #39 – Day Kundi to Tamazan Pass (National General Construction Company):
  - Pre-award conference minutes were not retained in the contract file.
- Road #40 – Kajran to Day Malek (National General Construction Company):
  - Pre-award conference minutes were not retained in the contract file.

Cause:
This condition occurred due to management not effectively monitoring subcontractor records to ensure that all required reports and documents are maintained in the file. Additionally, IRD management stated that not all contract modifications need to be signed by the subcontractors. However, there was no documentation provided as to why certain modifications are not required to be signed by the subcontractors. For those contract modifications that were not signed by IRD management, it was deemed to be an oversight.

Criteria:
22 CFR 226.53, *Retention and access requirement for records,* states, in part:

> "…(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID…"

Additionally, Cooperative Agreement No. 306-A-00-08-00509-00, Paragraph B.3, *Program Activities*, states, in part:

> "…The recipient shall be responsible for planning , managing and executing the road rehabilitation activities, including technical oversight of the road rehabilitation work, quality control, quality assurance and measurement of completed work…
>
> The recipient will be responsible for the following…

2013-9: Failure to Maintain Adequate Records (Continued)

7. Obtaining monthly financial and construction status reports from the sub-recipients and subcontractors for each road project. Further, the recipient shall furnish these monthly reports to USAID on a quarterly basis.."

Furthermore, IRD's Subcontract Agreements, Article 6.11, *Deliverables,* states in part:

"The following items shall be delivered under this subcontract:…

Description	Quantity	Delivery Date	Deliver To
Pre-Award Conference…	1…	Upon award…	Project Manager…
Monthly Progress Report and photographs (submitted with invoices)	1	Before or on the last day of the calendar month	Project Manager and IRD's Accounts Payable

Effect:
Failure to maintain all records and obtain required approvals as required by the terms of the Agreement and subcontracts creates gaps in understanding IRD's progress/lack of progress with award activities.

Recommendation:
We recommend that IRD establish more effective policies and procedures to ensure program documentation is properly maintained and adequate authorizations are obtained and in a timely manner.

2013-10: Entertainment Expenses Were Charged to the Agreement

Condition:
IRD included entertainment expenses for farewell parties, special holiday celebrations, and other parties, as part of the management and administration cost category.

Observation	Number of Errors	Questioned Cost
Decorations, food and refreshments for Christmas party	8	$2,687
Live music, tent rentals and food for farewell parties and social events evenings	8	1,323
Total ineligible entertainment expenses	16	$4,010

Cause:
IRD considered the farewell parties, holiday celebrations and other parties to be allowable employee morale costs as per applicable cost principles (2 CFR 230, Appendix B, Section 13a – *Employee Morale, Health and Welfare Costs*), and not entertainment expenses.

Criteria:
OMB Circular A-122, Attachment B, Paragraph 14, *Entertainment* costs, states:

> “Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.”

Effect:
IRD incurred $4,010 of ineligible entertainment costs which are unallowable costs per OMB Circular A-122. Reporting unallowable entertainment costs as employee morale costs raises concerns about the propriety of IRD’s billing and specific concerns about the extent of such charges. Indirect costs associated with the ineligible entertainment costs were $875. Total unallowable costs charged to the program were $4,885.

2013-10: Entertainment Expenses Were Charged to the Agreement (Continued)

Recommendation:

(1) We recommend that IRD either provide support and an explanation to USAID as to why the entertainment costs should be allowable or return $4,885 in ineligible entertainment costs.

(2) We recommend that IRD provide training to its employees regarding the cost principles outlined in OMB Circular A-122 and develop more effective policies and procedures to prevent unallowable entertainment costs from being charged as allowable costs.

2013-11: Lack of Support for Disposed, Lost and Damaged Assets

Condition:
Of the 59 disposed assets tested, IRD provided no evidence that 12 of those assets were in fact disposed. The unsupported disposed assets were as follows:

Asset No.	Description	Date Placed in Service	Cost
010780	Conference Table	1/29/08	$ 500
011047	Desktop	3/18/10	710
011630	Chair	1/29/08	30
012556	Printer	6/30/08	246
012862	Microwave	8/6/08	200
012964	Bed	2/25/08	135
013066	File Cabinet	8/17/08	110
013475	Network Cabinet	10/10/08	120
014128	Computer Monitor	1/20/09	340
014230	Digital Camera	2/8/09	150
016725	Dining Chair	5/3/10	15
CAR054	3x4 Carpet	5/3/09	120
Total unsupported disposals			$2,676

Additionally, of the 59 assets tested, 3 items were categorized as lost and 5 items were categorized as damaged. However, no documentation was provided to support whether the lost or damaged assets were reported to USAID. The lost and damaged assets were as follows:

Asset No.	Description	Date Placed in Service	Cost
Lost assets:			
010663	Thuraya	1/6/09	$ 620
013579	Camera	11/15/08	290
014969	Mobile	4/1/09	220
Total lost assets			1,130

2013-11: Lack of Support for Disposed, Lost and Damaged Assets (Continued)

Asset No.	Description	Date Placed in Service	Cost
Damaged assets:			
011733	Cabinet	6/18/08	$ 100
011836	Printer	1/31/08	110
012453	Chair	4/20/08	43
014356	Switch	7/8/08	35
014866	Printer	7/17/08	335
Total damaged assets			623
Total lost and damaged assets			$1,753

The total cost of disposed, lost and/or damaged assets were $4,429.

Cause:
IRD did not maintain evidence of disposal because USAID did not require the return of the equipment on the approved disposition plan. Equipment that was not to be used for another agreement or donated to another agency was disposed of and the method of disposal was not maintained or documented. Additionally, IRD did not have an adequate system in place to safeguard assets from loss or damage.

Criteria:
22 CFR 226.34, *Equipment*, states, in part:

> "…(f) The recipient's property management standards for equipment acquired with Federal Funds and federally-owned equipment shall include all of the following:…
>
> (4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency with whose funds the equipment was purchased…

2013-11: Lack of Support for Disposed, Lost and Damaged Assets (Continued)

> "(h) USAID reserves the right to transfer the title to the Federal Government or to a third party named by the Federal Government when such third party is otherwise eligible under existing statutes. Such transfer shall be subject to the following standards:
>
> (1) The equipment shall be appropriately identified in the award or otherwise made known to the recipient in writing.
>
> (2) USAID shall issue disposition instructions within 120 calendar days after receipt of a final inventory. The final inventory shall list all equipment acquired with award funds and federally-owned equipment. If USAID fails to issue disposition instructions within the 120 calendar day period, the recipient shall apply the standards of this section, as appropriate.
>
> (3) When USAID exercises its right to take title, the equipment shall be subject to the provisions for federally-owned equipment."

Effect:
Without evidence of asset disposals being maintained, equipment could be sold and the proceeds used for something other than the objective of the Agreement without USAID's knowledge. Lost and/or damaged assets resulted in government property that cannot be utilized for the benefit of the program's operation. The total cost of the disposed, lost, and/or damaged equipment is $4,429. A fair market value analysis was attempted through online queries of used equipment. However, due to the limited property descriptions provided by IRD, an accurate fair market value could not be determined. As such, the original cost of the assets has been questioned.

Recommendation:

(1) We recommend that IRD either provide evidence to USAID regarding its compliance with the Agreement and 22 CFR 226.34, or return $4,429 in disposed, lost or damaged assets.

(2) We recommend that IRD establish procedures to ensure that all disposed equipment be properly tracked and reported as required by the Agreement and 22 CFR 226.34.

(3) We recommend that IRD establish controls to ensure adequate safeguards are in place to prevent loss, damage or theft of assets.

2013-12: Need to Consistently Review the Excluded Parties List

Condition:
For transactions tested prior to October 2010, no documentation was provided to support that IRD conducted reviews of the Excluded Parties List System (EPLS) prior to entering into vendor contracts to verify that the vendors were not suspended, debarred or otherwise excluded from receiving Federal funds. For the Rent expenses tested, IRD did not perform an excluded parties check on four vendors, and for the office utilities tested, IRD did not perform an excluded parties check on one of the vendors. We reviewed the excluded parties list for these vendors and determined that they were not on the list. Therefore, we did not question any costs.

Cause:
This condition occurred due to an oversight by management. Additionally, IRD personnel explained that they became aware of the EPLS requirement in October 2010 and immediately ran searches on vendors.

Criteria:
22 CFR 226.13, *Debarment and suspension*, states:

> "USAID and recipients shall comply with the nonprocurement debarment and suspension common rule implementing E.O.s 12549 and 12689, Debarment and Suspension," 22 CFR part 208. This common rule restricts subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

Additionally, Cooperative Agreement No. 306-A-00-08-00509-00, Attachment C, Section C.10, *Debarment, Suspension, and Other Responsibility Matters Responsibility*, states in part:

> "…b. The recipient agrees that, unless authorized by the Agreement Officer, it will not knowingly enter into any subagreements or contracts under this grant with a person or entity that is included on the Excluded Parties List System (http://epls.arnet.gov). The recipient further agrees to include the following provision in any subagreements or contracts entered into under this award:
>
> DEBARMENT, SUSPENSION, INELIGIBILITY, AND VOLUNTARY EXCLUSION (DECEMBER 2003)

2013-12: Need to Consistently Review the Excluded Parties List (Continued)

> "The recipient/contractor certifies that neither it nor its principals is presently excluded or disqualified from participation in this transaction by any Federal department or agency…"

This criteria requires that IRD not do business with excluded parties. As such, IRD must review the excluded parties list prior to entering into contracts and document evidence of this review in order to demonstrate it has complied with the criteria.

Effect:
By not checking the EPLS for vendors excluded from Federal procurement and nonprocurement programs, Federal funds might be paid to a vendor that is debarred, suspended, or otherwise prohibited from receiving Federal funds. None of the vendors were on the excluded parties list and therefore no costs were questioned in this finding.

Recommendation:
We recommend that IRD establish procedures to ensure that it reviews the System for Award Management (SAM) prior to entering into a contract for goods and/or services, and then periodically throughout the period of performance, to ensure the vendor is not an excluded party. Evidence of these reviews should be documented in IRD's procurement files.

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

IRD Responses to Findings

For the Period November 30, 2007 through December 31, 2012

Included on the following pages is IRD's response received to the findings identified in this report. In addition to the narrative response, IRD provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.

International Relief & Development

TRANSMITTED BY E-MAIL AND UPLOAD TO MHM SECURE FTP SITE

January 24, 2014

Mayer Hoffman McCann P. C.
2301 Dupont Drive, Suite 200
Irvine, California 92612

Dear Mayer Hoffman McCann P.C.:

International Relief and Development, Inc. (IRD) hereby provides its response and comments on your Draft Report of the Financial Audit of Costs Incurred under Cooperative Agreement No. 306-A-00-08-00509-00 for the Period November 30, 2007 through December 31, 2012.

On pages 7 through 9 of the draft report summarizes your findings regarding internal controls. IRD does not agree that the matters related to Findings 10 and 11 are Significant Deficiencies. Given the immaterial amounts of $4,885 and $4,429 respectively, we do not agree with your classification of them as Significant Deficiencies requiring the attention of those charged with governance. You will see in our detail response to these findings that we only partially accept Finding 10 and for Finding 11 you are applying a reporting standard regarding lost or stolen equipment valued less than $5,000 that does not exist in regulation.

Pages 11 -12 of the draft report discusses findings related to prior audits. On page 11 you have a section covering the Single Audit Act Report for the year ended December 31, 2011 where you comment on a compliance finding. The finding you cite had nothing to do with the SPR program and is therefore outside the scope of the SPR Cost Incurred Audit. This paragraph should be removed from the report.

You also comment on a prior finding from the USAID OIG Report on SPR-SEA for the period October 1, 2009 to September 30, 2010. You conclude that because you noted a similar condition that corrective action had not been taken on the prior finding. First, the prior finding related to having SPR QA/QC staff imbedded in the same construction camp as the contractor. This finding originated from a USAID commissioned evaluation report on SPR and was not the result of any work performed by the audit firm. Second, MHM's Finding 2013-4 is related to payments for work done after the contract had expired and missing signatures on IRD payment approval forms. IRD is not aware of any findings by Mayer Hoffman McCann (MHM) related to QA/QC staff being embedded

in the contractor's construction camp. Therefore, Finding 2013-4 has no relationship to the prior finding. Further, since the USAID OIG Report was issued on May 12, 2012, well after the construction phase of the project was completed, even if IRD agreed with the finding, it would have been impossible to address the concern. To be held accountable for addressing a finding that is impossible to address because the project had ended hardly seems appropriate.

Following is IRD's response to each of the Findings contained in the draft report:

Finding 2013-1: Lack of Adherence to Procurement Procedures

IRD disagrees with the auditor's finding. Before addressing the two Roads below, IRD would like to raise the preliminary issue that MHM had raised similar findings with respect to Roads #16, #18, #20, #27, #36, and #37. In IRD's November 27, 2013 communication to MHM, IRD explained and provided documentation to refute each and every allegation related to lack of adherence to procurement procedures for all questioned roads. Although, IRD provided largely the same explanation and documentation for all roads, the auditor released its questioned costs on Roads #16, #20, #27, and #37, but inconsistently retained its questioned costs on Roads #18 and #36 in this draft audit report. This facial inconsistency aside, the following are IRD's comments on each item included in this finding.

Road Rehabilitation

Road #18 ($6,635,713.00) – The draft audit report questions $6,635,713 in costs incurred for Road #18 based on the allegation that the memorandum of negotiations does not mention DORA – the successful offeror -- within the document. The draft audit report concludes that there is no evidence to validate why DORA was awarded the contract, that competitive bidding procedures were not properly followed, and there is no justification as to why the contract was not awarded to the subcontractor with the highest score.

IRD cannot understand the auditor's position. Initially the documentation IRD provided there was a Memorandum of Negotiations for Road #4 that was erroneously titled at the header Road #18. The footer in the document properly identifies the Road #4 document examined by the auditors as the Memorandum of Negotiations for Road #4.

However, IRD corrected this initial mistake and provided a copy of the actual Memorandum of Negotiations for Road #18 to MHM in June 2013 and again with IRD's November 27, 2013 response to the revised draft report.[1] The Road #18 Memorandum

[1] This same documentation was provided to SIGAR on January 15, 2014 in a meeting between IRD and SIGAR's Sr. Audit Manager, George Buzby, Deputy Inspector General, Gene Aloise, Assistant Inspector General For Audits and Inspections Elizabeth Field, Deputy Inspector General for Audits Tinh Nguyen, Principal Deputy Assistant Inspector General for Audits, Ryan Coles, Director of Financial Audits, Charles Botwright, and Sr. Auditor, Valerie Kimball.

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of Negotiations, undoubtedly in MHM's possession, clearly "mentions" DORA. IRD also provided MHM with copies of offers in response to the Road #18 solicitation (including DORA's offer), the technical and financial ranking forms (which show DORA's rankings), and the USAID-approved consent to contract letter explaining the procurement process and DORA's selection previously in June 2013 and again with IRD's November 27, 2013 response to the original draft report. There is simply no support in the record upon which to conclude that "there is no evidence to validate why DORA was awarded the contract." To the contrary, MHM has the Memorandum of Negotiation, the Solicitation documentation including DORA's offer, the technical and financial rankings, which include DORA, and the USAID Consent to Contract, which summarizes the procurement process and the rationale for selecting DORA. Considering the overwhelming evidence to the contrary, MHM's finding with respect to Road #18 cannot stand – especially considering that MHM has questioned $6,635,713 on such a fallacious premise.

As to the questioned cost amount itself -- $6,635,713 – IRD contends that the basis for calculating the amount of the questioned costs is unreasonable. MHM used a per kilometer price of $29,020 from the lowest priced bidder to calculate its estimate of the costs 21 kilometer of road. As a threshold matter, MHM miscalculated the $29,020 per kilometer basis used for its disallowance. Simple math shows that the actual price of the lowest bidder was $2,256,200 or $120,438 per kilometer for 21 kilometers, not $29,020. Therefore, even accepting MHM's faulty analysis that DORA was not mentioned in the Memorandum of Negotiations – which IRD does not – MHM's questioned costs are off by over $1.6M. However, a review of the bid documents and memorandum of negotiations shows that the lowest bid was not reasonable at all when all the other bids were in the $5.65 to $7.27 million range. In addition to its bid price being unreasonable, the least expensive bidder also received the lowest technical score. Therefore, even if it were the case that DORA was not mentioned in the record of negotiations, as MHM contends, its basis for the questioned costs is mistaken on the basis of a mathematical error and is compounded by the failure of MHM to consider price reasonableness as required by applicable regulation.

Moreover, the documentation provided clearly shows that IRD complied with the regulations and provisions believed to be violated. Specifically, IRD included in its procurement records the basis for contractor selection and the basis for award price in conformance with 22 CFR 226.46. Likewise, IRD conducted a competition and awarded to the offeror whose bid was "most advantageous to the recipient, price, quality and other factors considered" in a manner consistent with 22 CFR 226.41. Finally, IRD demonstratively complied with its own procurement regulations cited by MHM in that:

- IRD used competitive procedures – 10.1,
- IRD awarded "to the offeror with the most advantageous solution to fulfil the needs of IRD, price and other factors considered" – 10.7.1, and
- IRD "documented in the Final Source Selection Memorandum" the basis for award – 10.7.10.

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Based on the forgoing and supporting documents provided to MHM and SIGAR directly, this finding should be removed from the report.

Road #36 ($1,117,137.00) – The draft audit report questions $1,117,137 in costs incurred for Road #36 based on the statement that there was no Memorandum of Negotiations in the procurement file, but that based on evidence available, the "contract was not awarded to the highest ranked bidder." The draft audit report concludes that competitive bidding procedures were not properly followed.

This issue has been clarified in IRD's November 27, 2013 submission to MHM. Initially, IRD provided the Memorandum of Negotiations for Road #38 in the procurement documentation for Road #36. However, the auditors were provided with the scoring sheets and evaluation documentation for this road. This documentation is consistent with the language of the USAID-approved contract consent letter, which was also provided to MHM as Attachment Road- 2013-01 H to the November 27, 2013 submission.[2] Paragraph 5 of this letter states:

> In excess of 450 local contractors were notified of the release of the RFP. Eleven (11) contractors submitted proposals and all of them were considered responsive. Four (4) construction companies were asked for their revised cost proposals/Best and Final Offer. Afghan Omid Construction Company was the most respons[ive] bidder [on] the project as evaluated based on the revised cost proposal in accordance with the selection criteria identified in the RFP.

Paragraph 8 of this same letter continues:

> IRD conducted a review of the costs and performed a price analysis to determine the reasonableness of the proposal. Data from other programs that used similar services was also used in the analysis.

The letter then concludes:

> Based on the foregoing information, IRD concludes that the proposed subcontract price would be the best value and a prudent expenditure of USAID funds in support of the goals of the SPR-SEA program.

Here, where the procurement at issue was a "best value" procurement and where the Memorandum of Negotiations issue has been resolved, there is no longer a basis for the draft audit report to propose a disallowance of $1,117,137.

The draft audit report questions the same $1,117,137 based on the reasoning that USAID descoped the road. IRD respectfully reminds the auditor that like other SPR vendor contracts, Road 36 was a design build contract. Therefore, a percentage of the

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[2] See footnote 1 above. This documentation was likewise provided directly to SIGAR on January 15, 2014

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contract value was planned to be expended on design and pre-construction costs such as mobilization and establishment of engineering facilities. The approved final payment amount includes cost for the termination for convenience in addition to the work completed, and all costs are supported and allowable.

In the USAID direction to terminate Road 36, which was also provided to the auditors, the security and security cost reasons were described and the costs related to design efforts and demobilization costs were recognized. Therefore, the fact that the "build" phase of a "design-build" contract was terminated due to security considerations, does not provide a reasonable basis for costs related to the design portion and pre-construction works portions of the contract to be questioned.

Moreover, the documentation provided clearly shows that IRD complied with the regulations and provisions believed to be violated. Specifically, IRD included in its procurement records the basis for contractor selection and the basis for award price in conformance with 22 CFR 226.46. Likewise, IRD conducted a competition and awarded to the offeror whose bid was "most advantageous to the recipient, price, quality and other factors considered" in a manner consistent with 22 CFR 226.41. Finally, IRD demonstratively complied with its own procurement regulations cited by MHM in that:

- IRD used competitive procedures – 10.1,
- IRD awarded "to the offeror with the most advantageous solution to fulfil the needs of IRD, price and other factors considered" – 10.7.1, and
- IRD "documented in the Final Source Selection Memorandum" the basis for award – 10.7.10.

Based on the forgoing and supporting documents provided to MHM and SIGAR directly, this finding should be removed from the report.

COCB

Subgrants - No Justification for awarding contract to other than the bidder with the highest technical and cost score ($1,152,630).

First, the three awards in question were grants, not contracts. The grants were awarded on a best value basis, not strictly on technical and cost scores. Therefore, as noted below, IRD does not agree with the auditor's finding. Second, even if the awards at issue were contracts and not grants – which they aren't – the maximum amount that could be questioned is the difference between the award amount and the bid with the highest technical and cost score. This is especially true given the fact that the U.S. Government received value from the grants. Disallowing the entire amount of the grant based on the mistaken assumption that they are contracts subject to contractual procedures is not reasonable.

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Grant LG-09-06 ($325,750.00) – MHM questioned the total amount of this grant to Health and Development Center for Afghan Women (HDCAW) because in the auditor's opinion it was not awarded to the bidder with the highest technical and cost score without justification. The grant was awarded following the evaluation process and criteria described in the solicitation document as opposed to procurement rules that would govern the award of a contract. See Annual Program Statement (APS) provided as Attachments COCB-2013-1 A1 and A2 with IRD's November 27, 2013 submission. The Applicants were encouraged to submit applications for one province or multiple provinces (as well as to cover multiple SPR targeted roads) within the region and they were expected to demonstrate ability to cover and implement several illustrative activities, which also was subject of the evaluation. This was a best value award, and was not based on cost. As such, there is no requirement that it must be awarded to the lowest bidder. Accordingly, the grant was awarded to the offeror that presented the best value to the SPR Program.

In addition to the APS, IRD provided the following documents with its November 27, 2013 submission:

Attachment COCB-2013-1 B - SPR-SEA 2008 APS Applications Evaluation
Attachment COCB-2013-1 C - Results Summary
Attachment COCB-2013-1 D - Application Review and Evaluation Forms
Attachment COCB-2013-1 E - Concept Notification
Attachment COCB-2013-1 F - Negotiation Memo (please see section D)
Attachment COCB-2013-1 G - USAID Approval

Even if the grant in question were a contract to be awarded under contractual procedures, the questioned costs are fully supported and there is no basis for the auditor to question the costs incurred.

Grant LG-09-12 ($402,975.00) – MHM questioned the total amount of this grant to the Norwegian Project Office/Rural Rehabilitation Association for Afghanistan (NPO/RRAA) because in the auditor's opinion it was not awarded to the bidder with the highest technical and cost score without justification. The grant was awarded following the evaluation process and criteria described in the solicitation document as opposed to procurement rules that would govern the award of a contract. The Applicants were encouraged to submit applications for one province or multiple provinces (as well as to cover multiple SPR targeted roads) within the region and they were expected to demonstrate ability to cover and implement several illustrative activities, which also was subject of the evaluation. This was a best value award, and was not based on cost. As such, there is no requirement that it must be awarded to the lowest bidder. Accordingly, the award was made to the offeror that presented the best value to the SPR Program.

IRD provided the following documents with its November 27, 2013 submission:

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Attachment COCB-2013-1 H - RFA-09-07 Application Receipt Sheet
Attachment COCB-2013-1 I - Application and Evaluation Forms
Attachment COCB-2013-1 J – USAID Approval

Even if the grant in question were a contract to be awarded under contractual procedures, the questioned costs are fully supported and there is no basis for the auditor to question the costs incurred.

Grant LG-09-13 ($423,903.88) – MHM questioned the total amount of this grant to the Educational Training Center for poor Women and girls of Afghanistan (ECW) because in the auditor's opinion it was not awarded to the bidder with the highest technical and cost score without justification. The grant was awarded following the evaluation process and criteria described in the solicitation document in SPR-SEA Program Request For Applications (RFA) provided as COCB-2013-1 K with IRD's November 27, 2013 submission. The Applicants were encouraged to submit applications for one province or multiple provinces (as well as to cover multiple SPR targeted roads) within the region and they were expected to demonstrate ability to cover and implement several illustrative activities, which also was subject of the evaluation. This was a best value award, and was not based on cost. As such, there is no requirement that it must be awarded to the lowest bidder. Accordingly, the award was made to the offeror that presented the best value to the SPR Program

In addition to the RFA, IRD provided the following attachments with its November 27, 2013 submission:

Attachment COCB-2013-1 L - RFA-09-06 Gender/Application Receipt Sheet;
Attachment COCB-2013-1 M - Application and Evaluation Forms;
Attachment COCB-2013-1 N -USAID Approval

Even if the grant in question were a contract to be awarded under contractual procedures, the questioned costs are fully supported and there is no basis for the auditor to question the costs incurred.

Contracts – No evidence of competitive bidding

Wilbur Smith Associates ($355,337.50) – MHM questions $355,337.50 for the Wilbur Smith contract based on the lack of "evidence of competitive bidding." MHM is mistaken as IRD provided documentation to MHM showing that the contract in question was in fact competed. Based on this competition, the MHM conclusion must be retracted.

The record is abundantly clear that there were two bidders for this contract. The bid submitted by Wilbur Smith Associates was $949,343.00 less than the second bidder. As stated in the IRD SPR consent to subcontract request to the USAID AOTR dated July 28, 2009, IRD concluded the proposal submitted by Wilbur Smith Associates was more comparable to the RED Model and the strategic objectives addressed in the RED

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model. The USAID AOTR approved the request to subcontract on July 30, 2009. These documents were been provided to MHM in IRD's November 27, 2013 submission and are provided again to refute the conclusion that there was "no evidence of competitive bidding." See Attachment COCB-2013-1 Y for copy of consent request and USAID approval and Attachment COCB-2013-1 Z for a copy of the memorandum of negotiations provided with IRD's November 27, 2013 submission. All related documents were previously provided to the auditor during the field work phase of the audit. The costs are fully supported. In addition, as the contract was not awarded to a company "other than the highest scoring bidder," the reference to "concerns that fraud may have occurred within the procurement function" must be withdrawn.

Management and Administration

Office Equipment – Competitive bids solicited, but documents not retained ($10,800) – MHM is correct that the three bids obtained for the procurement of 12 desk top computers was not retained. However, the IRD Comparative Bid Analysis (See page 10 of Payment Voucher UE0806/085 which was provided to MHM) was retained which clearly shows that the purchase was made from the lowest bidder. Accordingly, the cost of the 12 desk top computers is fully supported, reasonable and allocable to the SPR project. This finding should be removed from the report.

Office Utilities – No evidence as to why contract was not awarded to lowest bidder ($5,893)

- **Voucher BE1007/038 - $3,116** (see Attachment 2013-1 A) - The lowest bidder's price was $.78 per liter of fuel. However, as noted in the memorandum of Negotiations with the awarded supplier, there were issues with the lowest bidder's pump meter on its fuel tank. IRD agreed that the supplier could fix the problem and return, but the supplier never returned. Since the fuel was needed, IRD decided to revert to the previous supplier. Therefore, we reopened negotiations with the previous supplier and negotiated his price down to $.775 per liter. Therefore, IRD paid $.005 per liter less than the original lowest bid, saving a total of $268.28 on the 53,656 liters covered by this transaction. Accordingly, IRD paid a lower price and there is no basis for the questioned costs.

- **Voucher BE0912/063 - $500.00 -** The difference between the awarded price and the lowest price was $.01 per liter. So the price difference was $500. It appears from the supporting documents that the award was given to the selected suppliers based on grade of fuel (See Attachment 2013-1 B).

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- **Voucher BE1011/092 - $2,277** – Upon further review, IRD paid the selected bidder $.92 per liter for the fuel, which is equal to the price quoted by the lowest bidder. There is no difference in price. See Page 5 of Attachment 2013-1 C for an explanation of why the purchase was awarded to the selected bidder. Therefore, given that there was no price difference between the amount paid and the lowest bid price, there is no basis for questioning the costs.

Finding 2013-2 ($3,233,921): Road Construction Incomplete per Physical Observation

IRD disagrees with this finding. The draft audit report questions $3,233,921 in costs incurred for Road #11 based on the alleged "misrepresentation" of the completeness of the road in IRD's final Roads Rehabilitation Status Report. The draft audit report makes this allegation based on the provision of certain photographs allegedly taken by employees of HLB Ijaz Tabussum ("HLB") at some point during the audit field work on what is reportedly Road #11. MHM made no effort to determine what work was performed on Road 11 nor did MHN attempt to quantify the reasonable cost of the work performed. Rather, MHM bases this entire finding on photos allegedly taken by its sub-contractor without conducting any engineering studies to verify that its conclusions drawn from the photos are in fact correct.

The record is absolutely clear that USAID's third party technical engineering consultant examined the road, that IRD completed the "punch list" provided by the third party technical engineering consultant, and that USAID accepted the completed Road. For these factors and those cited below, this finding should be removed from the report.

<u>Road #11 was Inspected by TetraTech and accepted by USAID</u>

IRD did not "misrepresent" the completion of Road #11. Road #11 was inspected by the Afghanistan Ministry of Public Works and USAID's contracted third party reviewer TetraTech on December 11, 2010 and again on April 21, 2011. The road was approved as substantially complete by USAID on December 30, 2010 (see Attachment 2013-2 A, Appendix A.6 Award of Substantial Completion, December 28, 2010 and Attachment 2013-A1 Appendix A3.1 Punch-list provided with IRD's November 27, 2013 submission). Per the completion process, IRD submitted Appendix A.10 for approval to USAID after the final inspection on April 21, 2011, which USAID approved Road #11 as completed. See Attachment 2013-2 B, Appendix A.10 (April 23, 2011 letter from IRD and signed by USAID AOTR Mr. Scott Yost) provided with IRD's November 27, 2013 submission. Because the road was inspected by independent third parties and ultimately accepted as complete by USAID through the standard acceptance process, it cannot be the case that IRD "misrepresented" the completeness of Road #11. Had Road #11 been in any condition below acceptability, it would not have been accepted by USAID. If MHM concludes that Road 11 was not completed per the cooperative

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agreement, then it is also concluding that the work of USAID's third party reviewer and USAID's approval misrepresented the status of the road.

The Photographs in the Draft Audit Report Cannot be Verified

The photographs provided are allegedly from Road #11. However, without any geographical markers such as satellite coordinates or KM markers, IRD is unable to be sure that HLB actually reviewed Road #11. IRD questions whether the photographs at issue are in fact Road #11 as there is no proof in the record to substantiate the locations of the photographs taken. To the extent the photographs were taken in the vicinity of Road #11, it remains a possibility that the HLB team may have photographed a spur from the road not rehabilitated under SPR or potentially a portion of the road that may have been abandoned due to alignment issues but now is in use.[3] Without knowing where or when the photographs were taken, it is not possible to provide an authoritative explanation, except for the following.

As the acceptance inspections show, Road 11 was completed as an all-weather gravel road including a crushed aggregate basecourse layer per the approved road design. The photographs that were allegedly taken by the chartered accountancy subcontractor along some unidentified portion of what had been described as Road 11 do not verify the depth or density of the basecourse layer of the completed road that was inspected and approved at the time of road acceptance. The allegation that the road was only a "graded dirt road" is not based on any engineering samples, but rather on the uninformed observation of the auditor's sub-contractor, again a chartered accountancy. Similarly, the statement that the "layer of gravel is clearly missing in the photographs" is likewise unsupported by engineering samples as it may very well be that there is a layer of dirt on top of the road in the photographs -- assuming the photographs taken are of Road 11. Without any technical sampling by suitably skilled engineering testing staff, the allegation and the presumption of impropriety underlying the allegation must be retracted.

Contemporaneous Photographic Evidence Shows an Accurate Representation of Road #11 Progress

Although the photographs allegedly taken on Road #11were admittedly taken "approximately 2 years after the completion of the road," there is contemporaneous photographic evidence depicting the progress and completion of Road #11. See Attachment 2013-2 C, SPR Quarterly Report photographs (Q1 2009 depicting earthworks, Q2 2009 depicting grubbing, compacting, and widening, Q3 2009 depicting excavation and compaction, Q4 2009 depicting excavation, compaction and construction, Q1 2010 depicting grading and compacting, Q2 depicting aerial assessments, Q3 depicting placing and compaction of sub-base and base course); see also Attachment 2013-2 D (daily reports for Road #11 showing the draft audit

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[3] MHM has been afforded the opportunity to provide geotag markers for the photographs but has failed to do so. As such the photographs themselves cannot be afforded any credence.

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photographs to be mistaken as compared to the status of Road #11 at the time of inspection and acceptance) all provided with IRD's November 27, 2013 submission. This contemporaneous photographic evidence, which shows geographic and KM markers and which has been provided to MHM and to SIGAR directly, is the best evidence of the progress of the road over time.

The Draft Audit Allegations of "Misrepresentation" must be Retracted or Substantiated

Based on the lack of any reliable evidence that the photographs provided were in fact taken on Road #11 as well as lack of quantification of the aggregate base-course on the road, the overwhelming contemporary photographic evidence that Road #11 was rehabilitated in a manner consistent with the Cooperative Agreement at issue, the third party (USAID representative and GoIRA) inspection, and the ultimate USAID acceptance of Road #11, the draft audit report language referencing "misrepresentation" must be stricken from the final report and this finding should be removed.

Had MHM brought this finding to IRD's attention during the course of the field work, we would have provided the evidence to support that the road was completed as reported and approved by USAID. Other than a brief mention of the finding at the exit conference -- to which both IRD and USAID voiced objection -- the auditor never provided IRD with any information regarding this finding nor did the auditor request any documents from IRD supporting the completion of Road #11 until the original draft report was issued. Even upon IRD's provision of contemporaneous documentation in its November 27, 2013 submission, including the final inspection and acceptance documents, MHM has chosen not to amend its initial finding with respect to Road #11.

The Auditor's Recommendation Has Already been Fulfilled.

MHM recommends that IRD provide evidence to USAID that Road #11 was constructed as required per the agreement, or return the funding at issue. USAID – like MHM – already has all of the contemporaneous documentation in the form of studies, engineering reports, and quarterly reports showing that Road #11 was constructed according to standards. In addition, USAID – like MHM – has the TetraTech acceptance study and the final acceptance for Road #11. USAID's acceptance is the best evidence of completion in the record.

Considering the forgoing, this finding must be removed as there can be no credence placed upon the number of pictures allegedly taken by HLB Ijaz Tabussum on what is purported to be Road #11, and conversely the overwhelming documentation provided to MHM shows the road was completed as designed, inspected and accepted and supports the contrary conclusion.

FINDING 2013-3 Inadequately Supported Road Rehabilitation Costs

Road 20 – Yahya Khel to Baki Khel to Khayr Kot Road (Blue Khosar JV)

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The draft audit report cites a payment for $12,590 included in Payment Application #27 as part of the final payment as being ineligible as it was above the contract ceiling. The audit report correctly notes that the payment was for costs related to the termination for settlement resulting from the program descope on December 22, 2010. As part of the termination for convenience, costs for unpaid construction works were verified prior to the subcontractor submittal of their termination for settlement proposal. The unpaid construction works were claimed in the settlement proposal submitted to IRD on October 12, 2011; however, were noted as already paid in progress payments and not included in the final termination settlement payment.

Based on the foregoing, the costs above are fully supported. This finding should be removed from the audit report.

Road 27 – Shah Wali Kot to Nesh (Afghan Wardak Construction Company)

The draft audit report questions as ineligible amounts paid to AWCC after the termination for default issued on December 18, 2010 in the amount of $1,969,510. These costs were paid after the termination for default was reversed on February 20, 2011 and changed to for convenience by the IRD SPR Chief of Party. Of the total payment $469,510 is for actual work completed prior to the termination and $1,500,000 represents partial payment to settle the contractor's claim for early termination by IRD per USAID descope letter. Further, to IRD's knowledge, the auditor has not reviewed any of the claim costs included in the Special Purpose Financial Statement and therefore, is not in a position to render an opinion of the eligibility of such costs.

The draft audit report questions why the termination was reversed to convenience. After appeal by the subcontractor during the close out phase of the program, IRD converted the default termination to a convenience termination for three principal reasons.

- First, Road 27 was among the Roads listed in the descope letter that USAID directed IRD to terminate for convenience, the stated purpose being "to allow IRD to re-focus the SPR program's final year on a limited number of road projects delivering the greatest immediate impact for communities and GIRoA [Government of Islamic Republic of Afghanistan] with the highest chance of success." (December 22, 2010 Letter to Descope IRD-SPR Agreement at p. 2). IRD's decision to convert the termination for default to a termination for convenience was consistent with USAID's directive.

- Second, the USAID direction resulting in the conversion determination would have been based upon the context of the nearly 20 documented security incidents which resulted in 16 deaths and 24 casualties to AWCC's personnel

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and security guards in 2009 alone. A sample of these security incidents is provided by way of example below:

February 2, 2009: Taliban armed attack on AWCC security guards preventing AWCC field staff and survey team from accessing the site;

February 18, 2009: 3 AWCC security guards wounded (two seriously) and one surf vehicle badly damaged during firefight with Taliban.

April 15, 2009: Suspicious person attempting to access AWCC camp;

April 24, 2009: mine explosion seriously injuring two security guards.

May 16, 2009: RPG7 (rocket fire) by Taliban.

May 29, 2009: land mines discovered, Taliban armed attack on AWCC's field staff; two security guards injured and loaded excavator hijacked.

June 11, 2009: Taliban armed attack on security check post, killing two security guards and injuring one other.

June 13, 2009: 2 hour Taliban armed attack on security post at 4+500 km.

June 25, 2009: land mine discovered.

June 29, 2009: Taliban armed attack at 13+000km, killing one security guard and injuring three others.

July 10, 2009: Taliban armed attack at 6+000, killing one security guard and injuring three others.

July 18, 2009: Taliban armed attack on AWCC field staff.

August 3, 2009: "6 security guards [] were killed and 4 others [ ] were injured and one surf cas[sic] was completely damaged and injured security guards have been taken by Taliban and we don't have any information about them until now."

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August 4, 2009: One security guard killed by Taliban rocket fire at 5+000 km.

September 2, 2009: Two security Guards injured and one pickup badly damaged in armed Taliban attack.

October 28, 2009: One security guard killed and two others injured in armed Taliban attack.

November 17, 2009: land mines discovered at 7+000 km.

- Third, considering the forgoing and AWCC's request for conversion, IRD recognized that AWCC's inability to make sufficient progress on Road 27 was in part due to changed and unforeseen conditions and excusable, compensable delays after appeals made by the subcontractor. The FAR Default Termination provision incorporated into the AWCC Subcontract (52.249-10) provides that "If, after termination of the Contractor's right to proceed, it is determined that the Contractor was not in default, or that the delay was excusable, the rights and obligations of the parties will be the same as if the termination had been issued for the convenience[.]" Considering the forgoing, the conversion is consistent with the FAR.[4]

- Finally, MHM fails to recognize the operative law with respect to termination for convenience settlements. See by analogy FAR 31.205-42(h); FAR 49.201; and FAR 49.303-5(d); see also McDonnell Douglas Corp v. United States, 40 Fed. Cl. 529, 536 (Fed. Cl. 1998); Thermalon Indus. V. United States, 51 Fed. Cl. 464, 472 (Fed. Cl. 2002); McDonnell Douglas Corp. & Gen. Dynamics Corp. v. United States, 1997 U.S. Claims LEXIS 318 at *2 (Fed. Cl. 1997); Nolan Bros., Inc. v. United States, 194 Ct. Cl. 1, 39 (1969); Best Foam Fabricators, Inc. v. United States, 38 Fed. Cl. 627, 638 (1997); Bearing Point, Inc., 09-2 BCA ¶ 34,289

[4] See also FAR 31.205-42(h) ("Subcontractor claims ... are generally allowable."); FAR 49.303-5 (d) ("If an overall settlement of costs is agreed upon, agreement on each element of cost is not necessary."); FAR 12.403(d)(2) ("The parties must balance the Government's need to obtain sufficient documentation to support payment to the contractor against the goal of having a simple and expeditious settlement."); and FAR 49.201(a) ("A settlement should compensate the contractor fairly for the work done and the preparations made for the terminated portions of the contract, including a reasonable allowance for profit. Fair compensation is a matter of judgment and cannot be measured exactly. In a given case, various methods may be equally appropriate for arriving at fair compensation. The use of business judgment, as distinguished from strict accounting principles, is the heart of a settlement."

(ASBCA 2009) citing Johnson Controls World Services, Inc. 90-3 BCA ¶ 22,957 (ASBCA 1996). All of these cases stand for the general proposition that termination for convenience costs should be upheld – absent collusion – when based on a reasonably prudent exercise of rational business judgment and such business judgments should not be second guessed. Questioning "construction costs incurred after the original Termination for Default" ignores this case law but also the basic premise of settling any termination – default or convenience.

To the extent costs were questioned as ineligible based on the conversion to a termination for convenience that is in accordance with donor direction, the settlement of contractor claims, security reality at the time, and applicable law; the audit report should be revised.[5]

Finding 2013-04 Payments Lacking Proper Approval and for Period Beyond the Period of Performance

The draft report cites instances where the payment application requests did not consistently contain evidence of management review and approval or where work was completed after the period of performance including:

Road #6 Azra to Shirzad (Azad Construction Company)

The draft report includes "The Subcontractor was terminated for convenience with all work to be completed by June 15, 2011. However, a final invoice in the amount of $193,814 was submitted as a progress payment for this project for the period July 15, 2011 through August 14, 2011 without any approval to extend the project period." The draft audit report is incorrect.

While the majority of the road works were completed by June 15, 2011, security incidents in Q2 2011 prevented final completion by that date. The performance period was extended through July 31, 2011 in order to maximize the amount of completion in the SPR program during the closeout phase, although a formal contract modification was not completed. The subcontractor camp was then attacked on June 25, 2011 and the security situation remained poor as the insurgent forces wanted to prevent completion (see Attachment 2013-04 A Security Incident Report Road 6 provided with IRD's November 27, 2013 submissions). The subcontractor continued finishing some of the aggregate basecourse work (top layer), stone masonry walls and punchlist items after the contract period of performance (see Attachments 2013-04 C Road 6 daily reports provided with IRD's November 27, 2013 submission). IRD and Tetra Tech attempted to inspect the entire road on June 27, 2011 but were only able to visit 2.8 kilometers due to poor security. The inspection team came under attack on return from

[5] IRD will conduct training on the importance of record retention in the ordinary course of its corporate training. However, IRD notes that the 2013-3 questioned costs are not related to record retention issues.

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the road (See Attachment 2013-04 D, IRD Tetra Tech field visit June 27, 2011 provided with IRD's November 27, 2013 submission). Because of the security situation, IRD agreed to allow the subcontractor to finish the remaining works in August. The work on road 6 was completed by August 30, 2011 and is supported by adequate documentation; therefore, there is no doubt that the final invoiced amount is supported.

Road #9B- Kolalgu to Gardez (FMCC FTH JV)

The draft report states that the subcontractor's payment application request #15 did not contain the required approvals from the IRD contract manager and the DCOO roads manager prior to payment. The draft audit report is incorrect; Request for Payment Application 15, in fact was approved on June 5, 2011 by the Contracts Manager Holly Te and Director of Roads, Wayne Minehart. The contractor was paid after the approvals on June 21, 2013. The Director of Roads position replaced the Roads DCOP position during the close out phase of the program. Wayne Minehart became Director of Roads on April 15, 2011 and the signatory approval for the Road DCOP. Therefore, the basis for the Auditor's questioning of these costs is factually mistaken and, as such, the $269,851 was approved and is supported.

Road #16 – Jaghuri to Malistan (Combat Construction Company)

The draft report states that Payment Application Request #10 did not contain proper approvals as the Construction Manager signed as the Project Manager and Regional Manager in addition to the Construction Manager on January 26, 2010. Due to staffing turnover, the construction team was restructured on January 25, 2010 (see Attachment 2013-04 E, Road 16 Q1 quarterly report 2010 excerpt provided with IRD's November 27, 2013 submission). At that time, Jens Koerner was acting Construction Manager in addition to his role as Regional Manager as the Construction Manager was on leave. The Project Manager, Yar Mohammad, was assigned to Road 16 as a direct report to Jens Koerner as a replacement and had not yet assumed duties. The Request for Payment application also had final approval from the Chief of Party. Therefore, the basis for the Auditor's questioning of these costs is factually mistaken and, as such, the $294,047 was approved and is supported.

Road #20 – Yahya Khel to Baki Khel to Khayr Kot (Blue Khosar JV).

The draft report cites the approval and payment of the Payment Application Request #26 for the period of 6/25/11 through 7/25/11, which is after the contractual period of performance end date of 6/15/11. As the program close out period was scheduled to end on September 30, 2011, IRD directed the subcontractor to address final punchlist items to achieve maximum completion within the remaining program time of the SPR cooperative agreement. The items to be addressed included shoring up an embankment wall and installing road signs (see Attachment 2013-04 F, Road 20 Daily Report Summary provided with IRD's November 27, 2013 submission). The subcontractor returned to site as security allowed and completed the remaining items. Furthermore, Request for Payment Application 26 also includes payment for work

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completed before the end of the period of performance, such as installing side drains and riprap.

There is no doubt that the $73,021 was incurred and is supported by adequate documentation as part of the payment approval process. The road was accepted as completed by July 31, 2011.

Road #27 – Shah Wali Kot to Nesh (Afghan Wardak Construction Company)

The audit report states that proper approval was not obtained for Payment Application Request #6 as the construction manager (Allan Bennett) signed the G702 as the project manager and regional manager in addition to the construction manager. In March, 2009, the southern road management team was relocated to Kandahar to allow closer proximity to the road sites. There is an additional G702 sheet provided for invoice #6 that includes the appropriate signatures of the Kandahar team including the Project Manager (G. Scott Mikalauskis), Southern Regional Manager, Ron Francis in addition to the Construction Manager approval (see Attachment 2013-G, signed G702 form from Kandahar office provided with IRD's November 27, 2013 submission). This form was sent via email to the Kabul office prior to approval pdf form. As four copies of the original invoice were required for payment, the original version (page 1 of 14, application 6) references the signatures on the pdf version (see Attachment 2013-04 H original Payment Application Request referencing the signed G702 provided with IRD's November 27, 2013 submission). This payment also had final approval from the DCOP of Roads, and therefore the $231,818 is supported.

Finding 2013-5: Lack of Adequate Cash Disbursement Controls

The audit report concludes that because one local national employee stole $80,550 in federal funds that IRD failed to adequately safeguard Federal Funds. However, the $80,550 is only 0.00025 of the total funds expended under the Cooperative Agreement and the loss was recovered from the insurance proceeds. The U.S. Government did not suffer a loss. Therefore, contrary to the MHM's observation, IRD's internal controls over cash disbursements were more than adequate to protect the Federal Funds, as this one instance is immaterial.

Further, there was not a theft of $34,084. MHM is basing their observation on IRD's disclosure to USAID that there may have been a theft of this amount. However, as is clearly shown from the project files and the payment records, each of these projects had subsequent payments to the recipients. The recipients signed the grant completion certificates. Had the recipients not received all payments due, they would not have signed the grant completion certificate. So while IRD does not have specific payment receipts for the four questioned payments, there is adequate documentary evidence that the recipients received their payments and the projects were completed

This finding should be removed from the report.

Finding 2013-6 – Non-SPR Expenses Charged to the Agreement

IRD does not agree with the MHM's recommendation. As stated by MHM in the draft, IRD prepared a correcting journal entry to reclassify these costs to the correct projects subsequent to the audit period. What MHM did not say is that the correcting entries were posted subsequent to the audit period and USAID was credited. Therefore, no further action required since the mistake was corrected.

In IRD's opinion, the only reason that this finding is being reported is because the MHM's scope required that an opinion be expressed on the Special Purpose Financial Statement (SPFS) as of December 31, 2012, prior to the correcting entry being posted. It is important to note that (1) the SPFS is not a required financial report under the regulations governing federal assistance awards and was imposed on IRD by SIGAR for the purpose of this audit and (2) the SPR Cooperative Agreement had not expired as of December 31, 2012 and therefore additional costs and adjusting entries beyond that date are valid.

Had the audit focused on cost incurred for the entire life of the cooperative agreement and not on expressing an opinion on a statement that has no basis in the applicable regulations or standards, this finding would likely never have arisen to the level of questioned costs.

Finding 2013-7 – Indirect Costs Charged as Direct Costs

IRD does not agree with the MHM's recommendation. As stated by MHM, IRD prepared a correcting journal entry to reclassify these costs to the correct indirect costs center subsequent to the audit period. What MHM does not say is that the correcting entry was also posted and the SPR award credited. Therefore, as the auditor knows, no further action is required since the mistake was corrected.

Like Finding 2013-6, in IRD's opinion, the only reason that this finding is being reported is because the auditor's scope required that an opinion be expressed on the Special Purpose Financial Statement (SPFS) as of December 31, 2012, prior to the correcting entry being posted. It is important to note that (1) the SPFA is not a required financial report under the regulations governing federal cooperative agreements and was imposed on IRD by SIGAR for the purpose of this audit and (2) the SPR Cooperative Agreement had not expired as of December 31, 2012 and therefore additional costs and adjusting entries beyond that date are valid.

As with Finding 2013-6, had the audit focused on cost incurred for the entire life of the cooperative agreement and not on expressing an opinion on a statement that has no basis in the applicable regulations or standards, this finding would likely never have arisen to the level of questioned costs.

Finding 2013-8: Missing or Insufficient Source Documentation to Support Expenses

Employment Contract not Signed by Chief Administrative Officer ($12,276 and $16,428)

The employee covered by this finding was employed by IRD previously under the HRLS project. He was subsequently hired to work on the SPR project, then served as IRD's Afghanistan Country Director and is currently employed by IRD on the EQUALS project in Afghanistan. He was sent an offer for employment as SPR Construction Manager on June 26, 2008 (See Attachment 2013-8 A provided with IRD's November 27, 2013 submission) by e-mail from Scott Webb, IRD Recruitment Officer. Mr. Afshar accepted the offer and returned the signed contract and other documents on July 4th by e-mail (See Attachment 2013-8 B provided with IRD's November 27, 2013 submission) to the IRD Chief Administrative Officer and IRD Director of Recruitment. So, as you can see there was an offer and acceptance and a valid employment contract was entered into between Mr. Afshar and IRD. The fact that due to an administrative oversight, the IRD CAO did not sign the contract does not change that fact that there was a valid employment contract. Accordingly, the costs are fully supported, allowable, allocable to the SPR Project and reasonable.

No support for payments to an SPR Consultant ($15,750)

We have been unable to locate the payment file for the consultant in question. We will continue our search and are hopeful we will be able to present to documents to the USAID Agreement Offer at the appropriate time.

Base for allocation of Bonus to ($57,598)

The bonus was allocated based on management's estimate of the time spent by the IRD HQ Infrastructure Director on the projects/activities that he spent his time on in the first nine months of 2009. Based on management's determination, the total bonus was allocated as 50% to SPR, 30% to another IRD Project and 20% to IRD's indirect costs pool. This methodology is consistent with the allocation polices in effect at IRD during this time period. Accordingly, the costs are supported, allowable, allocable to SPR and reasonable.

Time Sheets not signed by supervisor ($30,685)

The five time sheets covered by this finding are all in 2008 when IRD had a manual time sheet system for international and TCN staff (IRD converted its time reporting system to an electronic system in 2009). Four time sheets are related to the SPR Chief of Party (CoP) whose duty station was Kabul, Afghanistan and whose supervisor (IRD Director of Infrastructure) was located at IRD Headquarters in Arlington, VA. The fifth time sheet was for the SPR Deputy Chief of Party (DCoP) who was stationed in Kabul, Afghanistan and whose supervisor was the SPR Chief of Party.

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As regards the four CoP time sheets, it appears that there was an administrative error where the HQ payroll accountant at IRD HQ failed to obtain the HQ based supervisor's signature on the time sheet. However, it is clear that the CoP was at his duty station during these time periods and preformed his SPR duties. As for the one DCoP time sheet, his supervisor (SPR COP) was on leave and outside of Afghanistan at the time the time sheet was submitted. Due to an administrative error, IRD failed to obtain the next supervisor up the chain of command (i.e. the CoP's supervisor) signature or his supervisor's signature when he returned from leave.

Accordingly, the questioned costs are fully supported, allowable, allocable to the SPR Project and reasonable.

Finding 2013-9: Failure to Maintain Adequate Records

IRD agrees that it could make improvement in its records management systems. However, as IRD was able to provide documentation to support all of the costs incurred and to answer the literally hundreds of requests from MHM, in our opinion IRD's records management system for SPR functioned as required. Accordingly, IRD complied with the record retention and access requirements of 22 CFR 226.53. Further, the "Effect" of this finding, as stated by the auditor, did not occur. IRD will continue to make improvements in its document management system for all programs and projects.

Finding 2013-10 – Entertainment Expenses Were Charged to the Agreement

IRD does not agree that all the costs in question are prohibited entertainment expenses. The cost related to food for staff is normal life support costs allowed under the award. The fact that this food was purchased for a holiday lunch does not make the costs ineligible for reimbursement under the agreement. Staff is served meals each day, including holidays. Therefore, there is no basis for determining that the food related costs is ineligible under the agreement. As regards the other costs, IRD agrees that the costs are not eligible under the agreement. IRD request that the finding be amended to accept the food expense as eligible costs.

Finding 2013-11: Lack of Support for Disposition, Lost and Damaged Assets

IRD disagrees with this finding. USAID regulations codified in 22 CFR 226.2 define Equipment as "… tangible nonexpendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with recipient policy, lower limits may be established" (22 CFR 226.2). Accordingly, since none of the property items cited in this finding have an acquisition cost of $5,000 or more per unit, the criteria upon which this finding is based (e.g. 22 CFR 226.34) is not applicable. IRD

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maintained the SPR property records in accordance with the applicable regulations. Therefore, this finding should be removed from the report.

Finding 2013-12: Need to Consistently Review the Excluded Parties List

IRD concurs with MHM's finding that none of the entities surveyed were on the EPLS. Nonetheless, IRD concurs with the recommendation. As noted in the draft report, starting in 2010 the SPR project began verifying that all third parties were not on the EPLS. This requirement is incorporated in IRD Procurement Procedures and periodic reminders are sent to all field offices by the IRD Compliance Office.

Based on the forgoing, while IRD accepts certain guidance for future operations, it rejects many aspects of the draft report. Specifically, IRD disagrees with the $7,752,850 in questioned costs related to the lack of adherence to procurement procedures when the auditor's position is inconsistent with its position on other roads, when the documentation believed to be missing is in the auditor's possession, and when that documentation affirmatively demonstrates that the competition believed to have been missing what in fact undertaken. Likewise, IRD disagrees with the $3,233,921 in questioned costs related to Road #11, when the audit provides only photographic evidence without any geographic indicators and without any geotechnical testing, and when there is no doubt that Road #11 was inspected by USAID's third party reviewer, TetraTech, and was ultimately accepted by USAID. Similarly, IRD disagrees with the so-called inadequately supported road rehabilitation costs for Road #20 and #27 especially in the context of the USAID descoping directive and subsequent termination for convenience of those descoped roads. Moreover, IRD disagrees that payment approvals were not in accordance with IRD standards. Finally, with respect to the remaining findings related to cash disbursement, non-SPR expenses, indirect costs, source documentation, records, expenses, assets, and SAM, IRD stands by the responses set forth above.

Please let me know if you have any questions or would like to discuss any of the responses.

Sincerely,

Elmer S. Owens
Senior Advisor

Enclosures: a/s

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INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

IRD Responses to Findings

For the Period November 30, 2007 through December 31, 2012

IRD provided general management responses to the audit and audit report, as well as specific disagreements to 10 out of the 12 findings presented in this report. We have reviewed its management responses and offer the following rebuttals to the general management responses, as well as each of the findings to which it disagreed.

General Management Responses and Auditors' Rebuttal

General Management Response #1

IRD does not believe that the matters related to Findings 2013-10 and 2013-11 should be classified as significant deficiencies based upon the dollar amount of each finding ($4,885 and $4,429 respectively).

MHM Rebuttal to General Management Response #1

Our determination of the significance of an internal control finding is not based solely on materiality, but rather the nature of the finding. According to auditing standards, 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. As such, our determination of the significance of internal control findings relative to Findings 2013-10 and 2013-11 remains unchanged.

General Management Response #2

IRD is of the opinion that the prior compliance finding referred to in the Single Audit Act Report for the year ended December 31, 2011 should not be cited as it has nothing to do with the SPR program.

MHM Rebuttal to Management Response #2

Our financial audit of costs incurred under Cooperative Agreement No. 306-A-00-08-00509-00 is per the Performance Work Statement (PWS) as prescribed by SIGAR. This includes a review of prior findings and recommendations reported in prior engagements relevant to the award. The prior findings and recommendations do not have to be specific to the award. In accordance with our PWS with SIGAR, we evaluated whether IRD has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or other financial data significant to the audit objectives. Our review of the Single Audit Act Report for the year ended December 31, 2011, noted a significant deficiency whereby certain expenditures were recorded in the period paid instead of the period in which they were incurred. We used this information to assess risk and to determine the nature, timing and extent of current audit work, including determining the extent to which testing

the implementation of the corrective actions are applicable to the current audit objectives. Based upon our audit, we noted in our audit report that IRD is properly recording expenses on the accrual basis of accounting and as such, the corrective action has been adequately implemented.

General Management Response #3

IRD indicates that the prior finding from the USAID OIG Report on SPR-SEA for the period October 1, 2009 to September 30, 2010 should be considered resolved as our audit did not identify a similar condition requiring that an SPR QA/QC staff be imbedded in the same construction camp as the contractor. Additionally, IRD indicates that since the USAID OIG Report was issued on May 12, 2012, well after the construction phase of the project was completed, even if IRD agreed with the finding, it would have been impossible to address the concern. Therefore, any issues identified by this audit have no relationship to the prior findings contained in the USAID OIG report.

MHM Rebuttal to General Management Response #3

In our review of the USAID OIG Report, it does not make reference to SPR QA/QC staff being imbedded in the same construction camp as the contractor as stated by IRD. Rather, our report states that results of the USAID OIG audit identified one significant deficiency related to controls over the approval of payments to subcontractors. A similar condition is documented in Finding 2013-4 of this audit report. Since a similar condition was identified in our audit, the corrective action implemented was not adequate to address the deficiency.

Management Responses and Auditors' Rebuttal to Each Specific Finding

2013-1: Lack of Adherence to Procurement Procedures

IRD disagrees with various components of this finding as follows:

Road Rehabilitation:

Road #18: IRD states that the original MON provided to the auditor was erroneously titled Road #18, when in fact it was for Road #4. However, the auditor reviewed the original MON that IRD claimed to be Road #4 and found it rather misleading. The title and scope of work indicated in the original MON did match Road #18, which was for the construction of a road from Mest to Yahya Khel to Ghundekay road in Paktika Province. During audit fieldwork, IRD advised us that the MON may not exist for Road #18 as it could not be located.

IRD subsequently provided a copy of what it claimed to be the "correct" MON. Having the "correct" MON surface after IRD stated it could not be located raises doubt about its authenticity. In addition, our review of the "correct" MON provided by IRD raised additional issues. First, the MON is not on official IRD letterhead and is missing the signature of the Chief of Party. Second, the only signature on the document is from the Deputy Chief of Party and the date of signature is typed rather than handwritten. Third, the MON indicates that IRD eliminated the contractor with the highest technical and cost score due to its price being unrealistic in comparison to all other bids, but there is no accompanying documentation presented to justify and explain the basis for this conclusion. As such, the MON was not properly authorized or justified. Absent of proper authorization, it cannot be deemed as evidence that the decisions described and actions taken per the MON represent reasonable conclusions or the decisions of duly authorized IRD managers.

Nevertheless, we reevaluated the average cost per kilometer using the "correct" MON for Road #18. This resulted in a revised average cost per kilometer of $120,295 for completion of a 21 KM road. Applying this revised average cost to the fully-rehabbed length of 21 KM, the estimated cost to complete this length of road would have been $2,526,200. As the total costs paid to the selected contractor were $7,245,133, we have revised our questioned costs to the difference of $4,718,933, which is a reduction of $1,916,780. Other than the reduction to the questioned costs, our recommendations are unchanged.

<u>Road #36</u>: IRD agrees that the MON was not retained in the procurement file and it provided the MON for Road #38 instead of Road #36 as requested. It disagrees with the cost being questioned as it believes adequate support exists demonstrating the costs are supported and allowable. As outlined in the condition, IRD provided insufficient information. We were not provided the detail or records that support the scoring sheets and evaluation documentation for this road. In addition, a review of the contract consent letter approved by USAID neither provides any details on the scoring nor the pricing, and as such, IRD has not provided sufficient documentation that justifies the reasonableness of the $1,117,137 in costs incurred. Our recommendation remains unchanged.

<u>COCB – Subgrants</u>:

<u>Grant LG-09-06 (Health and Development Center for Afghan Women)</u>: IRD indicated that this subgrant was awarded to the offeror that presented the best value to the SPR program. As outlined in the finding's condition, IRD provided insufficient information to support their decision to award the grant to an offeror other than the highest scoring. According to our review of the evaluation sheets IRD provided, HDCAW neither received the highest score nor did IRD document why this company was the best value. Our recommendation remains unchanged.

<u>Grant LG-09-12 (NPO/RRA)</u>: IRD indicates that this subgrant was awarded to the offeror that presented the best value to the SPR program. IRD states that this grant was a best value

award and was not based on cost. However, per our review of the evaluation sheets, NPO/RRA did not receive the highest score nor did an explanation exist that documented why this company was the best value. Our recommendation remains unchanged.

Grant LG-09-13 (ECW): IRD indicates that this subgrant was awarded to the offeror that presented the best value to the SPR program. However, per our review of the evaluation sheets, ECW did not receive the highest score nor did an explanation exist that documented why this company was the best value. Our recommendation remains unchanged.

COCB – Contracts:

Wilbur Smith Associates: IRD states there were only two bidders for this contract, that the bid from Wilbur Smith Associates was less than the second bidder, and that the IRD SPR consent to subcontract request to USAID concluded that the proposal submitted by Wilbur Smith Associates was more comparable to the Road Economic Decision Model (RED Model) and the strategic objectives addressed in the RED model. As outlined in the condition, IRD provided insufficient information during audit fieldwork. Our review of the procurement file noted that competitive bidding procedures were not documented. Additionally, pre-award conference minutes were not retained. IRD states that USAID approved the request to subcontract on July 30, 2009. However, the MON is dated August 6, 2009 which indicates that the MON was prepared after IRD requested USAID to award the contract to Wilbur Smith Associates. As such, it is questionable that any competitive bidding occurred and it is apparent that the winning bid was selected and approval requested before the decision about negotiation was authorized. Our recommendation remains unchanged.

Management and Administration:

Office Equipment: IRD states that the audit report is correct in that three competitive bids were solicited, but the document to substantiate such a process was not retained. IRD also states that a Comparative Bid Analysis was attached to the payment voucher which indicates that the purchase was made from the lowest vendor. However, without documentation to support the competitive bidding process, it is not possible to verify the amounts associated with each vendor's bid contained within the Comparative Bid Analysis. Our recommendation remains unchanged.

Office Utilities: IRD states in two of three instances for procurement of fuel, that there is no price difference between the amount paid and the lowest bid price. Therefore, there is no basis for questioning costs due to no evidence being provided as to why the contract was not awarded to the lowest bidder. Our review of supporting documentation provided confirms that in one instance of fuel purchase, IRD actually paid less than the original lowest bid, and in the second instance of fuel purchase, IRD paid a price that was equal to the price quoted by the lowest bidder. As such, we have reduced questioned costs by $6,600 for these two instances

and have revised the audit report accordingly. For the third instance of fuel purchase, IRD did not provide evidence supporting why the lowest bidder was not selected. Other than the reduction to questioned costs, our recommendation remains unchanged.

2013-2: Road Construction Incomplete Per Physical Observation

IRD disagrees with the finding indicating that the photographs in the report cannot be verified, the depth or density of the base course layer was not verified, and that Road #11 was reviewed and approved by its third party reviewer, as well as the Ministry of Public Works. IRD further states that the photographs were taken two years after completion and there exists contemporaneous photographic evidence depicting the progress and completion of Road #11. Additionally, IRD requests that the references to misrepresentation and fraud be stricken from the report.

As outlined in the condition, the final status for this road is reported as "Complete Full Rehabilitation", including 100% completion of an aggregate base course, which would be equivalent to a final surface course. However, based upon a physical observation of the entire road from Hassan Khel to Ster Village in June 2013, the road does not appear to have been completed in accordance with the requirements of the agreement. This observation was not performed by a skilled engineer, nor did the scope of our work under the PWS require such an evaluation. In our professional judgment, in order to be able to opine on whether the costs incurred were reasonable, allowable and allocable to the Agreement, we physically observed a sample of 14 of the total 41 roads for which costs were claimed. During this physical observation, only Road #11 depicted a condition that was so far removed from what was expected, allowing for a span of 2 years since construction of a road with a normal useful life of 15 years, that we could not conclude that the road was in fact complete as reported. Our recommendation remains unchanged.

2013-3: Inadequately Supported Road Rehabilitation Costs

IRD disagrees with various components of this finding as follows:

Road #20 – (Blue Khosar JV): IRD agrees that the audit report correctly notes that the questioned payment for $12,250 was for costs related to the termination for settlement resulting from the program descoped in December 2010. IRD also states that as part of the termination for convenience, costs for unpaid construction work were verified prior to the subcontractor's submittal of their termination for settlement proposal. IRD also states that the unpaid construction work was claimed in the settlement proposal submitted to IRD on October 12, 2011. However, these costs were noted as already paid in progress payments and should not be included in the final termination settlement payment. As such, IRD believes the costs are

fully supported. IRD did not provide evidence to clearly substantiate that the $12,250 was not included in the final termination settlement. Per discussion with IRD personnel, we were informed that Invoice Payment Application #27 in the amount of $12,250 was for the settlement of a claim and should not have been included in the total submitted invoices. Since this cost was handled as a claims termination settlement, as well as it appears to be claimed in a progress payment, there is a risk that this cost was paid twice. As such, our recommendation remains unchanged.

Road #27 – Afghan Wardak Construction Company (AWCC): IRD states that after an appeal by the subcontractor during the close-out phase of the program, it converted the default termination to a convenience termination for four principal reasons: (1) to comply with USAID direction to focus on roads with the greatest immediate impact; (2) the context of nearly 20 documented security incidents; (3) circumstances surrounding the subcontractor that caused the inability to make sufficient progress on this road was excusable and (4) IRD states that we failed to recognize the operative law with regards to termination for convenience settlements. As outlined in the condition, there were two cure notices issued to the contractor for deficiencies cited related to road construction activity. A Termination for Default was issued on December 18, 2010. Two months following the issuance of the Termination for Default, it was modified to a Termination for Convenience by the new Chief of Party and additional project costs continued to be incurred. During the course of our fieldwork, IRD did not provide supporting documentation to substantiate why the change in the type of termination notice was issued. The subcontractor in question was clearly not performing, and to change the termination status from default to convenience is not consistent with USAID direction. Furthermore, had this actually been a Termination for Convenience, then we would have evaluated appropriate criteria in determining whether the costs incurred were reasonable, allowable and allocable. In the absence of any documentation that justifies switching a Termination for Default to a Termination for Convenience for a non-performing subcontractor, our finding remains unchanged.

2013-4: Payments Lacking Proper Approval and for Periods Beyond the Period of Performance

IRD disagrees with various components of this finding as follows:

Road #6 (Azad Construction Company): IRD disagrees with questioned costs associated with Road #6 indicating that while the majority of the road work was completed by June 15, 2011, security incidents in early 2011 prevented final completion by that date. IRD also states that due to the security situation surrounding this road, they agreed to allow the subcontractor to finish the remaining work in August 2011. As outlined in the condition, the subcontractor was Terminated for Convenience on April 7, 2011 with all work to be completed by June 15, 2011. Costs incurred after this date are not allowable. However, a final invoice in the amount of $193,814 was submitted as a progress payment for this project for the period July 15, 2011

through August 14, 2011. IRD did not provide documentation to substantiate that a project period extension was approved. As such, these construction costs have been deemed ineligible as they were incurred after the official project completion date of June 15, 2011. Our recommendation remains unchanged.

Road #9B (FMCC-THEC-HCG Joint Venture): IRD disagrees with questioned costs associated with Road #9B indicating that the Request for Payment Application #15 was approved on June 5, 2011 by the IRD Contracts Manager and the Director of Roads. As outlined in the condition, the subcontractor's Payment Application Request #15 did not contain the required approvals from the acting IRD Contract Manager and the DCOO-Roads Manager prior to issuance of payment. As such, construction costs were deemed unsupported due to a lack of proper approvals. Our recommendation remains unchanged.

Road #16 (Combat Construction Company): IRD disagrees with questioned costs associated with Road #16 indicating that due to staff turnover, the construction team was restructured on January 25, 2010 and the Acting Construction Manager was also serving as the Regional Manager, as the incumbent Construction Manager was on leave, and that the Request for Payment Application was approved by the Chief of Party. Based upon our review of Payment Application Request #10, proper approvals were not obtained. The Construction Manager signed as the Project Manager, Regional Manager and Construction Manager. One individual signed as three separate approvers. Furthermore, a review of the quarterly performance report that was subsequently provided still does not support management's explanation as the acting Construction Manager is not named in the performance report that mentions the construction team being restructured. Our recommendation remains unchanged.

Road #20 (Blue Kosher JV Company): IRD disagrees with questioned costs associated with Road #20 indicating that due to the SPR program close-out period that was scheduled to end on September 30, 2011, IRD directed the subcontractor to address final punchlist items to achieve maximum completion within the remaining program time of the SPR Agreement, and that Payment Application #26 includes payment for work completed before the end of the period of performance. As outlined in the condition, a review was performed of the contract file whereby it was noted that Contract Modification #5 extended the final completion date to June 15, 2011. However our review of Payment Application #26 noted that costs were incurred under this contract for the period June 25, 2011 through July 25, 2011 without any approval to extend the project period. Since no documentation was provided to substantiate that proper approvals were obtained to extend the project period, these costs were deemed ineligible. Our recommendation remains unchanged.

Road #27 (Afghan Wardak Construction Company): IRD disagrees with questioned costs associated with Road #27 indicating that in March 2009, the southern road management team was relocated to Kandahar to allow closer proximity to the road sites. IRD also states that an additional sheet exists for Invoice #6 that includes the appropriate signatures of the newly

relocated Kandahar team, comprised of the Project Manager, Southern Regional Manager and Construction Manager. IRD also states that the questioned payment had final approval from the Deputy Chief of Party of Roads. As outlined in the condition, a review was performed of Payment Application Request #6, which revealed that proper approvals were not obtained as the Regional Manager signed as the Project Manager, Regional Manager and Construction Manager. The additional documentation IRD provided as cited in its response is inconclusive due to the poor quality of the document. Our recommendation remains unchanged.

2013-5: Lack of Adequate Cash Disbursement Controls

IRD disagrees with this finding and indicates that the facts are not correct surrounding the stolen funds, and that the dollar amount of funds stolen is immaterial in relation to total costs incurred, thus indicating internal controls are adequate. As stated in the condition, IRD disclosed that during the period of August 2009 through October 2009, a former COCB Regional Coordinator for the IRD Eastern Region in Afghanistan stole $75,000 in IRD funds that were intended for the execution of several COCB grants. IRD made repeated attempts to locate the individual with no success. IRD concluded that the individual disappeared and there would be no chance of recovering the missing funds. The IRD Finance Department also determined that an additional $34,084 was transferred to this individual through a money dealer in October 2009 for other grant activities for which no receipt from the intended community was sent to IRD. The grants were designated by IRD as Capacity Building Small Grant (CBSG) – Fixed Obligation Grant (FOG). The IRD Finance Department has also acknowledged that this individual received employee advances totaling $5,500 during his tenure as the Southeastern Regional Coordinator. These advances were never cleared by the employee submitting valid receipts or other documentation to support that the travel did occur. IRD indicated that the $5,500 was only recorded as a receivable but never charged to the project. No documentation supporting this claim was provided. The questioned cost for COCB is $109,084 and for Management and Administration is $5,500. The total questioned costs due to lack of adequate cash disbursement controls is $114,584. However, IRD received an insurance reimbursement related to the theft in the amount of $80,500 for which it reduced a subsequent claim for reimbursement. In conclusion, the total ineligible costs charged to the program are the net loss of $34,084, plus the associated indirect costs of $7,117, for a total of $41,201.

IRD states that its internal controls over cash disbursements were more than adequate to protect Federal funds as this one instance of stolen funds is deemed to be immaterial. The fact that the dollar amount of the theft was immaterial in relation to the total costs incurred does not deter from the fact that a theft occurred, and it did occur as a result of a breakdown in internal controls over cash disbursements. IRD relied on the integrity of its employees to deliver large sums of cash to villages for their use, which created opportunities for theft. The employees were traveling to regions that were not deemed safe for expatriate staff to travel to. At the time, there were no banks, paying agents, or other viable ways to safely transport the funds to the

community leaders. As such, controls such as dual custody of cash, were lacking once the cash was given to the employee to deliver. Our recommendation remains unchanged.

2013-6: Non-SPR Expenses Charged to the Agreement

IRD agrees that the costs were incorrectly charged to the SPR program, but disagrees in that it corrected the coding subsequent the end of the audit period. While a correction of the coding was made subsequent to the end of the audit period, the Special Purpose Financial Statement only reports activity through December 31, 2012, and IRD did not disclose this as a subsequent event in its Notes to the Special Purpose Financial Statement. USAID should consider the subsequent correction of this miscoding when determining the ultimate resolution of the finding. Our recommendation remains unchanged.

2013-7: Indirect Costs Charged as Direct Costs

IRD disagrees with the finding indicating that the costs were not included in the indirect cost pool and also charged as direct costs. The costs were not recorded as both a direct and indirect cost, but rather indirect costs were incorrectly recorded as direct costs. While a correction of the coding was made subsequent to the end of the audit period, the Special Purpose Financial Statement only reports activity through December 31, 2012, and IRD did not disclose this as a subsequent event in its Notes to the Special Purpose Financial Statement. USAID should consider the subsequent correction of this miscoding when determining the ultimate resolution of the finding. Our recommendation remains unchanged.

2013-8: Missing or Insufficient Source Documentation to Support Expenses

IRD disagrees with various components of this finding as follows:

Employment Contract not Signed by Chief Administrative Officer for Yunus Afshar – Questioned Cost including Fringe Benefits and Indirect Cost ($47,257.48, including indirect): IRD states that with regard to this employee, there was an offer and acceptance and a valid employment contract was finalized. IRD also states that due to an administrative oversight, the IRD CAO did not sign the contract. However, it believes that the lack of signature does not change the fact that there is still a valid employment contract. As no records were provided to support that the agreement and rates of pay were approved, our recommendation remains unchanged.

No Support for Payments to an SPR Consultant – Questioned Cost including Indirect Cost ($18,725, including indirect): IRD states that they have been unable to locate the payment file

INTERNATIONAL RELIEF AND DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-08-00509-00

Auditors' Rebuttal to IRD Responses to Findings

(Continued)

for the consultant in question. As such, no records were provided to support this cost. Our recommendation remains unchanged.

Timesheets not signed by supervisor – Questioned Cost including Fringe Benefits and Indirect Cost ($51,007.13, including indirect): IRD indicates that the five time sheets covered by this finding are all in 2008 when IRD had a manual timesheet system for international and TCN staff. The documentation provided indicated that the timesheets lacked approval by a supervisor, thus the hours worked were not approved. Our recommendation remains unchanged.

Basis for allocation of Bonus to SPR – Questioned Cost including Indirect Cost ($69,623.92, including indirect): IRD states that the bonus was allocated based upon management's estimate of the time spent by the IRD HQ Infrastructure Director on the projects/activities worked on during the first nine months of 2009. As outlined in the condition, IRD could not provide records, or provided insufficient records, to support transactions selected for testing. No supporting documentation was provided for the base used for the bonus allocated to the SPR Program. As such, our recommendation remains unchanged.

2013-10: Entertainment Expenses Were Charged to the Agreement

IRD does not agree that all of the costs in question are prohibited entertainment expenses. It believes that food for staff represents normal life support costs allowed under the award. IRD is in agreement that other costs are ineligible as indicated. The entertainment costs in question were for farewell parties, holiday celebrations and other parties and are not considered to be normal food costs. As such, our recommendation remains unchanged.

2013-11: Lack of Support for Disposed, Lost and Damaged Assets

IRD disagrees with this finding indicating the items noted were less than the threshold of $5,000 established by the CFR. While we agree that the costs of the assets are less than the CFR threshold, IRD reported the items as equipment and tracked the items as equipment. As such, it needs to ensure an adequate control system exists to prevent loss, damage or theft of equipment and needs to comply with the applicable CFR requirements related to equipment. As such, our recommendation remains unchanged.

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Public Affairs

Public Affairs Officer

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