

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-10 Financial Audit

USAID's Engineering, Quality Assurance and
Logistical Support Program: Audit of Costs
Incurred by International Relief and
Development, Inc.



JANUARY
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 20, 2011, the U.S. Agency for International Development (USAID) awarded a 1-year, \$96.8 million contract to International Relief and Development, Inc. (IRD) to support the Engineering, Quality Assurance and Logistical Support (EQUALS) program. The program was intended to help ensure that USAID construction projects in Afghanistan met prescribed standards and contract specifications, and to provide capacity building support to key Afghan ministries involved in the energy, roads and water sectors. After 17 modifications, the period of performance was extended from April 17, 2012, to April 17, 2016, and program funding was increased to \$126.3 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$63,144,114 in expenditures charged to the contract from January 1, 2013, through March 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in IRD's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether IRD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of IRD's Special Purpose Financial Statement. See Crowe's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2016

USAID's Engineering, Quality Assurance and Logistical Support Program: Audit of Costs Incurred by International Relief and Development, Inc.

SIGAR 16-10-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe) identified two material weaknesses and one significant deficiency in International Relief and Development, Inc.'s (IRD) internal controls, and four instances of noncompliance with the terms and conditions of the contract. Specifically, Crowe found that IRD may have overcharged the government by \$614,676 by billing employees under categories for which they may not have been qualified. For example, Crowe found that 2 of 25 tested employees were assigned to incorrect labor categories, resulting in \$72,635 in possible overcharges. Crowe also noted that IRD reports submitted to the U.S. Agency for International Development were incomplete and did not show evidence of supervisory review. Finally, Crowe found that IRD overcharged the government \$3,610 as a result of currency conversion errors.

As a result of the internal control weaknesses and instances of noncompliance, Crowe identified \$618,286 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. Crowe did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Labor	\$614,676	\$0	\$614,676
Supplies	\$3,610	\$0	\$3,610
Totals	\$618,286	\$0	\$618,286

Crowe obtained and reviewed 13 prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. In these reports, Crowe identified and followed up on nine audit findings related to the scope of this audit. After reviewing and assessing documentation, Crowe determined that IRD had not taken adequate corrective actions on four findings related to inventory reconciliation, insufficient supporting documentation, and overcharges. Crowe noted similar findings concerning supporting documentation and overcharges in this audit. For example, two prior audits found that IRD did not support exchange rates with adequate documentation and incorrectly identified transaction dates for certain conversions, resulting in overcharges to the government. Although IRD modified its foreign currency conversion procedures and issued a standard operating procedure to document the process, Crowe found similar errors in currency conversions in the Engineering, Quality Assurance and Logistical Support program.

Crowe issued an unmodified opinion on IRD's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period audited.

WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$618,286 in questioned costs identified in the report.**
- Advise IRD to address the report's three internal control findings.**
- Advise IRD to address the report's four noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 6, 2016

The Honorable Gayle E. Smith
Administrator
U.S. Agency for International Development

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath, LLP (Crowe) to audit the costs incurred by International Relief and Development, Inc. (IRD) under a U.S. Agency for International Development (USAID) contract to support the Engineering, Quality Assurance and Logistical Support (EQUALS) program.¹ Crowe's audit covered \$63,144,114 in total costs charged to the contract from January 1, 2013, through March 31, 2015. Our contract with Crowe required that the audit be performed in accordance with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$618,286 in total questioned costs identified in the report.**
- 2. Advise IRD to address the report's three internal control findings.**
- 3. Advise IRD to address the report's four noncompliance findings.**

The results of Crowe's audit are detailed in the attached report. We reviewed Crowe's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on IRD's Special Purpose Financial Statement. We also express no opinion on the effectiveness of IRD's internal control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-049)

¹ USAID awarded contract number 306-C-00-11-00512-00 to IRD to support the EQUALS program, which was intended to help ensure that USAID construction projects in Afghanistan met prescribed standards and contract specifications, and to provide capacity building support to key Afghan ministries involved in the energy, roads, and water sectors.



International Relief and Development, Inc.

Special Purpose Financial Statement

Engineering, Quality Assurance and Logistical Support (EQUALS)

For the Period January 1, 2013, through March 31, 2015

(With Independent Auditor's Report Thereon)

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Transmittal Letter

November 18, 2015

To the President and Management of International Relief and Development, Inc.
1621 North Kent Street, Fourth Floor
Arlington, Virginia 22209

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of International Relief and Development, Inc.'s contract with the United States Agency for International Development ("USAID") funding the Engineering, Quality Assurance and Logistical Support ("EQUALS") Program.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of International Relief and Development, Inc., the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses to the findings have been incorporated into the report and are followed by the auditor's responses.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of International Relief and Development, Inc.'s EQUALS Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

International Relief and Development, Inc. (“IRD”) entered into a contract with the United States Agency for International Development (“USAID”) on April 20, 2011, to provide support to USAID and Afghanistan’s Office of Infrastructure, Engineering and Energy. The scope of work included the provision of independent quality assurance services for ongoing and planned construction, design and maintenance projects in the transportation, vertical structures, energy, and water and sanitation infrastructure areas. IRD was also responsible for providing capacity building support to the key ministries involved in the energy, roads, and water sectors with an objective of strengthening the ministries’ capacity and providing analytical support to the Government of the Islamic Republic of Afghanistan in matters pertaining to transportation, vertical structures, energy, and water and sanitation.

The program, the Engineering, Quality Assurance and Logistical Support (“EQUALS”) Program, was funded by contract number 306-C-00-11-00512-00, an indefinite delivery indefinite quantity contract with an original ceiling of \$96,807,645 and a base year period of performance concluding on April 17, 2012. The Government had the option to – and ultimately elected to – exercise four one-year options such that the period of performance was extended through April 17, 2016. The contract ceiling was also increased to \$126,307,645.

During Crowe’s audit period – January 1, 2013, through March 31, 2015 – eleven job orders were active. As of March 25, 2015, \$103,404,732 had been billed to the Government of which \$63,144,114 was reported as having been incurred during the audit period.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of IRD’s EQUALS Program.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of the audited entity’s internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether the audited entity 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.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement.

Scope

The scope of the audit included the period January 1, 2013, through March 31, 2015, for the EQUALS program. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”) and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Procurement;
- Reporting; and
- Special Tests and Provisions, including employee qualifications for labor categories specified under the terms of the contract.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee’s internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by IRD. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee’s compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract executed by and between IRD and USAID, the Code of Federal Regulations (“CFR”), and the Automated Directives System (“ADS”) guidance documents – the criteria against which to test the SPFS



and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, IRD's reimbursement requests, procurements, property and equipment items, project reports, and employees who were billed to the applicable job classifications for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess IRD's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements ("NICRA"), the rates included within the NICRA were not assessed against the amounts billed using fixed daily rates, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both IRD and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We obtained and reviewed thirteen prior audits, reviews, and assessments conducted by various parties over IRD's EQUALS project as well as other Federally-funded projects. Per review of the various reports, there were nine prior findings that required follow-up. Other matters were considered during the course of our risk assessment and the subsequent design of our audit procedures.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results

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

With regard to matters of internal control and compliance, Crowe identified four findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulting from identified instances of noncompliance. Other matters that did not meet the aforementioned criteria were communicated verbally to IRD.

Crowe also reported on both IRD's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. Two material weaknesses in internal control, one significant deficiency in internal control, and four instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$618,286 in costs was questioned as presented in **TABLE A** contained herein.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to IRD's financial performance under the contract. We reviewed relevant reports and conducted follow-up procedures in relation to nine findings that could be material to the SPFS. Based upon our procedures, the corrective action taken in relation to four findings was considered to be inadequate due to the same or similar issues being identified and reported within findings under the EQUALS audit. **Section 2: Summary Schedule of Prior Audit and Review Findings** provides more details of relevant findings.

This summary is intended to present an overview of the results of procedures completed for the purposes described herein and is not intended to be a representation of the audit's results in their entirety. Costs that are questioned within each audit finding are shown in the "Questioned Costs" column. The "Cumulative Unique Questioned Costs" column shows the running sum of costs that are questioned within the audit findings, but excludes costs that are questioned under multiple findings from being double-counted.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2015-01	Reporting	\$0	\$0
2015-02	Evidence of Employee Qualifications	\$614,676	\$614,676
2015-03	Position Classifications in Billing	\$72,635	\$614,676
2015-04	Foreign Currency Translations	\$3,610	\$618,286
Total Questioned Costs			\$618,286

Summary of Management Comments

IRD partially agreed with findings 2015-02, 2015-03, and 2015-04. IRD disagreed with finding 2015-01.

References to Appendices

The auditor's reports are supplemented by three appendices - **Appendix A** containing the Views of Responsible Officials; **Appendix B** containing the auditor's rebuttal to management's response; and **Appendix C** showing the foreign currency translations made using the weighted average exchange rate and errors that were identified during testing.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the President and Management of International Relief and Development, Inc.
1621 North Kent Street, Fourth Floor
Arlington, Virginia 22209

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period January 1, 2013, through March 31, 2015, with respect to the Engineering, Quality Assurance and Logistical Support Program funded by contract number 306-C-00-11-00512-00.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

(Continued)

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by IRD in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of contract number 306-C-00-11-00512-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Award referred to above. Our opinion is not modified with respect to this matter.

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 Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated November 11, 2015, on our consideration of IRD's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IRD's internal control over financial reporting and compliance.



Crowe Horwath LLP

November 11, 2015
Washington, D.C.

Special Purpose Financial Statement
Contract No. 306-C-00-11-00512-00
For the Period January 1, 2013 through March 31, 2015

		Questioned Costs			
	Budget	Actual	Ineligible	Unsupported	Notes
<i>Revenues</i>					
USAID 306-C-00-11-00512-00	\$ 126,307,645	\$ 63,144,114			4, 5
Total Revenue	\$ 126,307,645	\$ 63,144,114			
<i>Costs Incurred</i>					
I. Direct Labor - HQ/Expatriates	\$ 32,758,841	\$ 6,643,814	\$ 614,676		5 A, B
Direct Labor - TCN	-	3,156,538			
Direct Labor - CCN	-	7,111,895			
II. Procurement/Equipment	690,996	144,418			
III. Supplies	410,493	93,937	3,610		C
IV. Communications	1,863,532	864,249			
V. Subcontracts/Consultants	6,130,353	3,193,440			
VI. Allowances/Benefits	13,306,133	5,515,806			
VII. Other Direct Costs	22,769,771	11,815,290			
VIII. Security	34,636,517	19,706,148			
IX. Indirect	9,706,368	4,898,579			
Total Costs Incurred	\$ 122,273,004	\$ 63,144,114	\$ 618,286	\$ -	
Balance		\$ -			

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

International Relief and Development, Inc. (IRD)
Notes to the Special Purpose Financial Statement
For the Period January 1, 2013, through March 31, 2015

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract No. 306-C-00-11-00512-00 for the Engineering, Quality Assurance and Logistical Support ("EQUALS") Program for the period January 1, 2013, through March 31, 2015. Because the Statement presents only a selected portion of the operations of International Relief and Development, Inc. ("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 this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States Dollars ("USD") were required. The costs incurred in Afghan Afghanistan were converted to USD using the historic weighted average exchange rate, as described in IRD Field Standard Operating Procedures Manual.

Note 4. Revenues

Revenues on the Statement represent the amount of funds that IRD is entitled to receive from USAID in accordance with the terms and conditions of the contract and applicable job orders during the period of performance. Whereas this is a Time and Materials Contract, revenue for each job order contains the following elements:

- Fixed Daily Rates – Expatriate and HQ labor;
- Labor Multipliers – Third Country National (TCN) actual labor costs plus 65% and Cooperating Country National (CCN) actual labor costs plus 49%; and
- All Other Costs – Equivalent to costs incurred plus overhead and excluding any fee.

The revenues presented reflect amounts earned by IRD during the audited period.

Note 5. Contract and Job Order Budgets

The budget value of \$126,307,645 reflects the cumulative authorized amount under the umbrella contract and is based on USAID Modification #17 dated January 21, 2015. The budget categories presented and associated amounts totaling \$122,273,004 reflect the summary of the 11 approved job order budgets and issued under the umbrella contract as of March 31, 2015. The budgeted amounts reflect all approved budgeted amounts from contract inception through the conclusion of the audit period: May 1, 2011, through March 31, 2015.

(Continued)

Note 6. Cumulative Contract Cost Reconciliation (Unaudited)

Total EQUALS program costs incurred and billable to USAID from inception to March 31, 2015 is \$105,318,350. Following is the breakdown of this amount:

\$ 63,144,114	Costs incurred during the current audit period (Jan 1, 2013 - Mar 31, 2015)
37,468,687	Billed direct costs (Apr 18, 2011 - Dec 31, 2012), per KPMG Afghanistan audit
3,459,473	Billed indirect costs (Apr 18, 2011 - Dec 31, 2012), not included in KPMG Afghanistan audit
<u>1,246,076</u>	Costs incurred before Dec 31, 2012 but billed after January 1, 2013, including associated indirect costs and retroactive indirect adjustments
<u>\$ 105,318,350</u>	Cumulative Contract Costs

Note 7. Cumulative Billing Reconciliation (Unaudited)

The cumulative amount billed and received under EQUALS as of March 31, 2015 is \$104,635,449. The difference of \$682,901 between cumulative billed and cumulative costs incurred represents amounts incurred before March 31, 2015, but that have not yet been invoiced to USAID.

Note 8. Currency

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

Note 9. Program Status

The EQUALS contract remains active. The period of performance for the Option Year 4 of the contract is scheduled to conclude on April 17, 2016, as noted in modification number 17 dated January 21, 2015. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of applicable Indirect Cost Rates finalization.

Note 10. Subsequent Events

IRD's management has conducted its review of events occurring subsequent to the January 1, 2013, through March 31, 2015, audit period as of November 11, 2015.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement¹

Note A. Evidence of Employee Qualifications for Labor Classifications

IRD could not produce supporting documentation to demonstrate that four employees were eligible to be billed under certain labor classifications based on the position requirements identified within the contract terms and conditions. \$614,676 is questioned as a result of this matter. See Finding 2015-02.

Note B. Position Classifications in Billing

Finding 2015-03 questions \$72,635 as a result of two employees having been invoiced under incorrect labor classifications.

Note C. Foreign Currency Translations

IRD incorrectly identified the transaction date for four foreign currency conversions and the field office did not comply with the corporate standard operating procedure pertaining to calculation of the weighted average exchange rate. As a result, \$3,610 in overcharges – net of any undercharges – is questioned within Finding 2015-04.

¹ Notes to the 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 Statement.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Management of International Relief and Development, Inc.
1621 North Kent Street, Fourth Floor
Arlington, Virginia 22209

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (“the Statement”) of International Relief and Development, Inc. (“IRD”), and related notes to the Statement, for the period January 1, 2013, through March 31, 2015, with respect to the Engineering, Quality Assurance and Logistical Support (“EQUALS”) Program funded by contract number 306-C-00-11-00512-00. We have issued our report thereon dated November 11, 2015.

Internal Control over Financial Reporting

IRD's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period January 1, 2013, through March 31, 2015, we considered IRD's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of IRD's internal control. Accordingly, we do not express an opinion on the effectiveness of IRD's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

(Continued)

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 Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2015-02 and 2015-04 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency noted in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

International Relief and Development, Inc.'s Response to Findings

International Relief and Development, Inc.'s response to the findings were not subject to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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



Crowe Horwath LLP

November 11, 2015
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Management of International Relief and Development, Inc.
1621 North Kent Street, Fourth Floor
Arlington, Virginia 22209

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period January 1, 2013, through March 31, 2015, with respect to the Engineering, Quality Assurance and Logistical Support Program funded by contract number 306-C-00-11-00512-00. We have issued our report thereon dated November 11, 2015.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of International Relief and Development, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2015-01, 2015-02, 2015-03, and 2015-04 in the accompanying Schedule of Findings and Questioned Costs.

International Relief and Development, Inc.'s Response to Findings

International Relief and Development, Inc.'s response to the findings were not subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

(Continued)

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 Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe Horwath LLP

Crowe Horwath LLP

November 11, 2015
Washington, D.C.

SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2015-01: Reporting

Significant Deficiency and Noncompliance

Criteria: Section 7.5(2)(b) of the base contract states:

The Contractor shall submit to the COTR, CO, and OFM brief Quarterly Expenditure Reports which will contain a summary page which shows spending by category for the quarter, cumulative spending to date, available funding for the remainder of the activity and any variances from planned expenditures. If there are significant accrued expenditures for the quarter being reported upon which for some reason have not yet been billed to the contract, the Contractor will include a brief note to that effect, with the specific amount involved, thus enabling the COTR to accurately track the expenditure rate. These reports will be submitted approximately two weeks before the end of the quarter.

IRD's internal reporting procedures include preparation of progress reports by the program team and a subsequent review and approval by the Chief of Party. With regard to financial reports, IRD indicated that quarterly expenditure reports were prepared by the field then reviewed by the Director of Donor Reporting and Cash Management. Subsequent to Modification No. 11, the accrual reports were developed by a manager reporting to the Director of Donor Reporting and Cash Management then reviewed by the Director.

Condition: We tested two quarterly expenditure reports and two accrual reports for completeness. Within the quarterly expenditure reports, IRD did not include spending by category, cumulative spending to date, available funding remaining, and any variances from planned expenditures. Accordingly, the reports were considered to be incomplete.

In addition, we requested the underlying working papers to determine if the financial reports were adequately supported and the data provided to USAID was accurate. For three of the aforementioned financial reports, the underlying supporting documentation provided consisted of either emails or hard coded data that did not lend themselves to reproduction or otherwise permit tracing to the source documentation from which financial amounts were pulled.

Lastly, we requested evidence of management's documented approval of each report to test whether or not the control had been implemented as designed. IRD was unable to provide evidence of either the Director of Donor Reporting and Cash Management or the Chief of Party's review and approval of the seven reports that were tested.

Questioned costs: None

Effect: The data received by USAID for purposes of tracking program expenditures may have been incorrect. Further, in the absence of management reviews, the likelihood that errors and omissions will not be detected or corrected in a timely manner is increased.

Cause: IRD received an email request for accrual estimates early in the project and, therefore, considered the accrual requests to be adequate for purposes of meeting the Contracting Officer's expectations. With regard to management approvals, IRD indicated that the company considers tacit approvals (i.e., submission emails on which the appropriate manager is carbon copied). Because the accrual estimates were estimated instead of actuals, IRD did not consider it necessary to retain detailed backup for the calculated amounts.

Recommendation: We recommend that IRD modify its reporting policies and procedures to require the retention of written documentation demonstrating that management has reviewed and approved reports prior to their submission to the Government. In addition, we recommend that IRD develop a checklist for each reporting requirement to mitigate the risk that data elements required by Federal contracts are omitted or that working papers demonstrating the methodology and data used to calculate financial elements are not retained.

(Continued)

Finding 2015-02: Evidence of Employee Qualifications for Contract Labor Positions

Material Weakness and Noncompliance

Criteria: Per Section B.4(2) of the contract, "In order to perform the services set forth in Section C., the Contractor must provide the education and experience levels (e.g., CVs/resumes, NOT salary/rate histories under biographical data sheets) as indicated below of the specific Functional Labor Categories listed above. The qualifications in the categories must correspond to the applicable fixed daily rates provided in Section B.4.(a)(1)."

Level	Academic Degree*	Plus Minimum Years of Relevant Work Experience
Senior**	Ph.D.	13
	JD/ABD	13
	MS, MA, MBA, BS	13
	BA	15
Mid-Level	Ph.D.	10
	JD/ABD	10
	MS, MA, MBA	10
	BS, BA	12
Junior	Ph.D.	3
	JD/ABD	3
	MS, MA, MBA	3
	BS, BA	5
	Less than Bachelor's	8

* Highest degree obtained should be related to work being performed.

** In addition to the requirements for the senior level positions, the program manager and team leaders must possess at least 15 years of relevant work experience and have a Professional Engineering (PE) license.

The contract states the following with respect to the Legal/Regulatory Advisor and Donor Coordinator positions:

LEGAL/REGULATORY ADVISOR: Examines legal and regulatory issues constraining the development of the assigned sector and recommends options to improve their effectiveness. Works with government and private sector to improve the investment climate and to remove barriers to private sector financing for infrastructure projects in the assigned sector. Should possess license to practice law.

DONOR COORDINATOR: Facilitates communications and liaison among donors and the Afghan Government to ensure coordination of infrastructure development activities. This may entail managing and providing technical support to Working Groups or Technical Secretariats, scheduling meetings, coordinating meeting agenda, ensuring participation of donors and Government representatives, and disseminating information on donor activities.

Per IRD's *Pre-Employment Background Check Procedure*, a cleared background check must be obtained before an offer can be extended to a new employee.

Condition: We selected a sample of 25 employees and requested to view background check information to determine if the individuals' educational and job histories were in alignment with the contractual requirements. During our review of background check information, we noted that no background check was available for one employee and four background checks did not include a verification of education and/or employment history. In the absence of background check information for four individuals, one cannot conclude that the resumes and/or contractor biodata forms used to support management's assertion that the employees were qualified under the fixed daily rate requirements for the applicable labor categories are accurate. See the table, below, for the employees in question and the applicable costs charged to the contract.

(Continued)

In addition, three of the individuals (Employees A, B, and D) were billed under categories for which they did not possess relevant academic degrees, per review of their biodata forms and resumes. Employee D was billed as a Senior Donor Coordinator - a position requiring facilitation of communication and serving as a liaison between donors and the Afghan Government regarding infrastructure development, including the provision of technical support to Working Groups and Technical Secretariats. Employee D's highest degree is a Bachelor of Arts degree in English Education. In addition, review of the employee's resume indicated that he had not previously worked in the donor coordination field but rather had experience as a secondary educator, in facilities management, and in various roles pertaining to military and security-related matters.

Employees A and B were billed as Senior Legal/Regulatory Advisors. The Legal/Regulatory Advisor position requires the examination of legal and regulatory issues and working with the government and private sector to improve the overall investment of private sector financing of infrastructure projects. However, Employee B's highest attained degree is a Master of Education in Training and Development, and Employee A's highest attained degree is a Bachelor of Science in Civil Engineering. Neither individual's highest attained degree pertained to the provision of legal or regulatory advice.

Voucher #	Employee Name / Charges			
	A	B	C	D
21	\$ 29,160	\$ 12,960	-	\$ 18,171
22	\$ 25,920	\$ 25,920	-	\$ 16,152
24	\$ 26,272	\$ 8,832	-	\$ 17,718
27	\$ 25,020	\$ 7,784	-	\$ 2,772
29	\$ 30,024	\$ 28,912	-	\$ 18,018
30	\$ 24,464	\$ 18,904	-	\$ 18,711
32	\$ 16,680	\$ 25,576	-	\$ 15,939
33	\$ 23,352	\$ 5,560	\$ 430	\$ 18,018
36	\$ 24,827	\$ 23,550	-	\$ 18,249
38	\$ 13,740	-	-	\$ 18,564
39	\$ 30,915	-	-	\$ 14,280
41	-	-	-	-
42	-	-	-	\$ 9,282
44	-	-	-	-
45	-	-	-	-
47	-	-	-	-
Totals:	\$ 270,374	\$ 157,998	\$ 430	\$ 185,874
Total Questioned Costs:				\$ 614,676

(Continued)

Questioned costs: \$614,676

Effect: The Government may have been overcharged and/or received services from individuals who were less qualified than the Government expected or did not possess the qualifications and experience levels to justify the applicable fixed daily rates.

Cause: IRD utilized a background check vendor that did not appear to conduct comprehensive background checks consistently.

Recommendation: We recommend that IRD conduct the required background checks for the four individuals in question to determine whether the employees are qualified under the fixed daily rate requirements. If they are not qualified, then IRD should reimburse the Government \$614,676.

(Continued)

Finding 2015-03: Position Classifications for Billing

Noncompliance

Criteria: Per Section B.4(2) of the contract, "In order to perform the services set forth in Section C., the Contractor must provide the education and experience levels (e.g., CVs/resumes, NOT salary/rate histories under biographical data sheets) as indicated below of the specific Functional Labor Categories listed above. The qualifications in the categories must correspond to the applicable fixed daily rates provided in Section B.4.(a)(1)."

Level	Academic Degree*	Plus Minimum Years of Relevant Work Experience
Senior	Ph.D.	13
	JD/ABD	13
	MS, MA, MBA, BS	13
	BA	15
Mid-Level	Ph.D.	10
	JD/ABD	10
	MS, MA, MBA	10
	BS, BA	12
Junior	Ph.D.	3
	JD/ABD	3
	MS, MA, MBA	3
	BS, BA	5
	Less than Bachelor's	8

ENGINEERS (i.e., CIVIL/STRUCTURAL, TRANSPORT, WATER SUPPLY AND SANITATION, ELECTRICAL, MECHANICAL, HYDROPOWER, RENEWABLE ENERGY): Review construction plans for practicability, availability of materials, accessibility, and suitability of specifications. Work with contractors to ensure adherence to construction specifications and administrative requirements. Monitor materials testing to ensure that they meet standards and contract specifications. Anticipate problems that may impede construction implementation and recommend appropriate actions. Report deviations in the construction schedule. Analyze plans and/or assess completed facilities for structural and engineering integrity. While a professional engineering license is an advantage, it is not required except for those who will occupy the Team Lead, Senior level and Civil/Structural engineer positions.

LEGAL/REGULATORY ADVISOR: Examines legal and regulatory issues constraining the development of the assigned sector and recommends options to improve their effectiveness. Works with government and private sector to improve the investment climate and to remove barriers to private sector financing for infrastructure projects in the assigned sector. Should possess license to practice law. D. Water and Sanitation: assessment, design and construction of multi-purpose dams, storage reservoirs, drainage basins and irrigation systems, urban and rural water systems, flood control systems, and domestic and industrial water supply; exploration and development of groundwater resources.

Condition: During our testing of vouchers, we identified two employees out of 25 that were tested who were assigned to incorrect labor categories. The first individual did not have the requisite years of experience to be charged at the senior donor coordinator position; rather, his resume supports the years of experience necessary for the junior donor coordinator position. Therefore, the difference between the senior and junior daily rates are in question.

The second employee was approved to serve in the key personnel role of the Water and Sanitation Team Leader, which is specified as an engineering position within the contract. However, the individual was billed as a Legal/Regulatory Advisor. The function of the water and sanitation sector is consistent with the management of water systems, flood control, irrigation, and other matters of water resource engineering. Accordingly, the individual would appropriately have been classified as a senior water resources engineer and the difference between the daily rate for the water resources engineer position and that for the Legal/Regulatory Advisor is in question.

(Continued)

Questioned costs: \$72,635, including \$26,537 for the Water and Sanitation Team Leader and \$46,098 for the Senior Donor Coordinator. This amount is also questioned as a component of finding 2015-02.

Effect: The Government was overcharged for time worked by the Senior Donor Coordinator and may have been overcharged for work performed by the Water & Sanitation Team Lead.

Cause: Regarding the donor coordinator, the IRD reviewer included the incorrect qualifications identified in the contract on the evaluation form and evaluated the individual using junior level requirements. This resulted in the misclassification.

IRD considered the employee classified as a Water and Sanitation Team Lead to be performing a type of civil engineering service and, due to the role of the team lead in reviewing policy, considered the role to be applicable to regulatory advising.

Recommendation: We recommend that IRD either produce additional documentation that demonstrates 1) that the individuals met the requirements of a Senior Donor Coordinator and a Legal/Regulatory Advisor, respectively; or 2) refund the Government \$72,635.

(Continued)

Finding 2015-04: Foreign Currency Translations

Material Weakness and Noncompliance

Criteria: Accounting Standards Codification 830 states that, “At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date.”

The Codification defines “transaction date” as “The date at which a transaction (for example, a sale or purchase of merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP). A long-term commitment may have more than one transaction date (for example, the due date of each progress payment under a construction contract is an anticipated transaction date).”

GAAP also states that foreign currency transactions arise when a reporting entity (i.e., IRD) performs certain actions including, but not limited to 1) buying or selling on credit goods or services whose prices are denominated in foreign currency; or 2) for other reasons, acquires or disposes of assets, or incurs or settles liabilities denominated in foreign currency.

Per OMB Circular A-122, costs must meet the following general criteria to be allowable:

- a. Be reasonable for the performance of the award and be allocable thereto under [the principles contained in OMB Circular A-122];
- b. Conform to any limitations or exclusions set forth in [OMB Circular A-122] or in the award as to types of amount of cost items;
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;
- d. Be accorded consistent treatment;
- e. Be determined in accordance with generally accepted accounting principles (GAAP);
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period; and
- g. Be adequately documented.

IRD’s Weighted Average Exchange Rate standard operating procedure states that “All disbursements made in local currency will be translated to US dollars using the calculated weighted average exchange rate in effect as of the date the transactions were incurred.” The procedure further requires that the exchange rate table maintained in [IRD’s accounting system] be updated with the current weighted average exchange rate and the exchange rate provided by the bank.

Condition: IRD utilizes a weighted average exchange rate for purposes of converting transactions denominated in local currency to United States dollars for use in financial reporting. We requested copies of the weighted average exchange rate tables for 2013, 2014, and 2015. We tested 25 separate vouchers covering various months within the 27 month audit period. During our analysis, we identified a 100 percent exception rate due to the following matters:

1. IRD calculated separate weighted average exchange rates for petty cash conversions and bank conversions prior to the fourth quarter of 2014, which is a deviation from the corporate documented procedure requiring calculation of a single rate based on total balances;
2. IRD calculated the weighted average exchange rates based on the dividend resulting from dividing the USD balance on-hand as of the conversion date by the balance of Afghanis on-hand as of the conversion date rather than calculating the rate based on conversions within the accounting period, which IRD defines as one month.
3. In various instances, the field office either miscalculated the exchange rate or utilized the exchange rate from the currency conversion rather than the weighted average exchange rate.

(Continued)

The aforementioned items resulted in a net overcharge to the Government of \$2,695 due to the departure from GAAP and deviation from corporate procedure. See **Appendix C** of this report for a table detailing the exceptions.

In addition, during our review of currency conversions, we identified four vouchers (210604814, 210605935, 210607188, and 210604227) for which an incorrect exchange rate was used due to an incorrect transaction date having been utilized. The rate that was used was based on the date that IRD approved certain vouchers for payment rather than the date that the cost was incurred or the date that the transaction should have been recorded in accordance with GAAP, as required by IRD's WAER standard operating procedure and GAAP. The impact was a net overcharge of \$915.

Questioned costs: \$3,610

Effect: As a result of the currency conversion errors, the Government was overcharged by \$3,610.

Cause: IRD had defined the transaction date as the date at which a voucher was approved for payment versus the date at which the goods were received. IRD considered the use of running cash balances to be appropriate for purposes of calculating weighted average exchange rates rather than using conversions made during the accounting period only. Headquarters did not detect the field's calculation errors during their review.

Recommendation: We recommend that IRD develop and conduct training for field office and headquarters office personnel regarding the provisions of ASC 830 and the definition of transaction dates. Further, we recommend that IRD implement a periodic review by senior management of field office translations to ensure appropriate implementation of the standard operating procedure and detection of errors in a timely manner. Lastly, we recommend that IRD reimburse the Government \$3,610.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Crowe reviewed five OMB Circular A-133 audit reports, four audit reports issued by SIGAR, three reports issued by USAID's Office of the Inspector General, and one evaluation of the EQUALS program. Per review of the reports, we identified eight items that required follow-up as they may have been direct and material to the SPFS. A summary of the results of follow-up procedures is included, below.

Audit Report No. F-306-15-022-N issued by the USAID Office of the Inspector General

1. Discrepancies noted in the inventory reconciliation: The auditors identified a difference between the inventory and the underlying financial records such that the difference was questioned. The auditors questioned an amount that exceeded the total amount of equipment and property purchases under the contract. Therefore, the matter remains open pending a final determination by USAID. During our procedures, we noted that an unreconciled difference between the inventory and the financial records still exists.
2. Purchase of food items and supplies: The auditors questioned and USAID sustained \$1,157 in questioned costs as a result of IRD having been charged and paid rates for food and supplies than those included within the agreements with the vendor. We tested five vouchers associated with food items and supplies and did not identify any instances of overcharges. We also noted that IRD has reimbursed the Government for the total of \$1,157.
3. Level of effort: The auditors questioned \$82 as a result of IRD's having charged a level of effort that exceeded the job order budget. USAID sustained the cost and IRD has reimbursed the Government for the \$82 amount. We also reviewed the hours charged to each job order during the period covered by our audit. During that review, we did not identify any instances in which the level of effort that was approved by USAID was exceeded by IRD.
4. Costs overbilled to USAID: IRD overcharged the Government by \$60 for one security manager due to a mathematical error. IRD has credited this amount to USAID and we did not identify any related errors during the course of our procedures.
5. Time charged in excess of amount recorded on time sheet: IRD overcharged the Government by \$68. The overbilling resulted from an employee being paid for a day that he did not work. IRD has credited this amount to USAID and we did not identify any related errors during the course of our procedures.
6. Time sheets for local nationals: One employee's timesheets covering two months of work were unable to be produced. As a result, the auditors questioned and USAID sustained \$2,830 in questioned costs. IRD has credited this amount to USAID and we did not identify any related errors during the course of our procedures.

Independent Auditor's Report on the Special Purpose Financial Statement for the Afghanistan Vouchers for Increased Production in Agriculture (AVIPA) Program for the Period September 1, 2008, through April 22, 2013, and the Independent Auditor's Report on the Special Purpose Financial Statement for the Southern Regional Agricultural Development Program (SRADP) for the period August 27, 2011, through October 15, 2012, issued by the Office of the Special Inspector General for Afghanistan Reconstruction

1. Finding 2014-02 of the AVIPA report: IRD did not maintain supporting documentation demonstrating that management reviewed and approved reports submitted to USAID. Errors were detected in the reports during the audit that were not detected and corrected by management. During the course of our audit, IRD could not produce adequate supporting documentation to show that management reviewed and approved reports prior to submission to USAID for the EQUALS project. Similar to the prior finding, errors and omissions were detected on the reports that were tested. See Finding 2015-01 of this report.

(Continued)

2. Findings 2014-13 and 2015-02, respectively, of the aforementioned audit reports: IRD did not maintain adequate supporting documentation to support the exchange rates utilized for translations of Afghanis to United States dollars thus resulting in \$17,013 greater than appropriate being recorded to the cost share account. IRD also incorrectly identified the transaction date for conversions associated with a subcontract issued under the AVIPA Program. The result was a \$654,503 overcharge.

We noted that IRD has modified its foreign currency translation procedure and issued a standard operating procedure to document the process. However, we also identified a series of errors in application that resulted in overcharges to the EQUALS project. See Finding 2015-04 in this report.

Appendix A: Views of Responsible Officials

TRANSMITTED BY E-MAIL ONLY

November 13, 2015

Mr. Bert Nuehring
Crowe Horwath LLP
1325 G Street NW, Suite 500
Washington D.C. 20005-3136

Dear Mr. Nuehring,

The purpose of this letter is to provide International Relief and Development, Inc. (IRD) response to the findings contained in the final draft report received from Eric Russell on October 27, 2015 on Crowe Horwath LLP performed financial audit of IRD EQUALS Program, USAID/Afghanistan Contract Number 306-C-00-11-00512-00 for the period January 1, 2013 to March 31, 2015. IRD's response is keyed to the finding number contained in the final draft report.

Finding 2015-01: Reporting

IRD Response: IRD disagrees with this finding. The Manager, Donor Reporting and Cash Management, receives and reviews the quarterly accrual reports prepared by the Afghanistan based finance staff. This Manager position has the necessary authority to submit these reports to USAID with a copy to the Director, Donor Reporting and Cash Management. IRD does not believe certification/signature by the Director is required since this is not a report of actual expenditure beyond values already invoiced. The Director does review and sign monthly invoices of costs incurred submitted to USAID, which are official representations to USAID. IRD believes its reporting procedures are adequate in this regard. Moving forward, IRD will maintain soft copy documentation of each EQUALS quarterly submission and ensure all financial reports and accruals are included in IRD's monthly reporting check list.

Finding 2015-02: Evidence of Employee Qualifications for Contract Labor Positions

IRD Response: IRD partially agrees with this finding. It is IRD's practice to conduct background checks for all newly hired employees and consultants, and this is a routinely followed process throughout IRD's existence. For the four of the five instances where background check reports were lacking details on education verification, IRD provided copies of their relevant education credentials in support of the labor categories and employees in question. The remaining instance is addressed in IRD's response to finding 2015-03.

In regard to employment history verification, a set of alternative documentation was provided as well – i.e. official documentation from previous employers certifying the length of the employment, position held, etc; fully executed biodata forms certifying that the data was verified before employment.

There were three different companies engaged by IRD to do the background check of new hires throughout employment period of the tested pool. In some cases, the background checks were not completed in their entirety due to limited capacity of the companies to reach overseas sources.

IRD has taken corrective action in 2015 and engaged HireRight to perform initial background checks for all employees and consultants. Offers of employment are extended contingent upon successful completion of the background checks. IRD's HR Department provides secondary background verification in those cases where HireRight is unable to verify personal information.

Finding 2015-03: Position Classifications for Billing

IRD Response: IRD partially agrees with this finding and proposes an alternative approach:

Employee: Mr. Yunus Afshar (Labeled as Employee A in the table)

Mr. Afshar was hired as the Water Team Lead, who would be embedded in the Ministry of Energy and Water (MoEW). The proposed FDR was Legal/Regulatory Advisor (Senior) 1017AA at \$1,080 for Option Year 1. The approval was submitted and approved in December 2012.

A more appropriate FDR would have been Civil Engineer (Senior) 1001AA at \$1,080.

The role of the Water Team Lead is broad, combining the provision of technical assistance in the construction of water reservoir dams managed by MoEW staff, and oversight to the Ministry of Energy & Water in the development of Policies relating to Water Management. In addition to the requirements for FDRs, requirements for this role are laid out in subsection C.5 of Key Personnel - paragraph E. -- Water and Sanitation Team Leader of EQUALS contract 306-C-00-11-00512-00:

The Water and Sanitation Team Leader must have a BS degree or equivalent from an accredited college or university in the appropriate branch of engineering. The candidates should hold advance degrees, extensive experience and knowledge in concepts, principles and practices in developing countries within the field of science or engineering field. A Professional Engineering (P.E.) license or equivalent is required. The candidate must have the ability to express engineering and scientific judgment clearly and concisely in writing and orally. S/he must have a

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broad knowledge of managing complex projects in the US and overseas. The candidates should have 15 years of relevant work experience, with at least 10 years of direct experience in engineering or the field of specialty. Direct experience working on projects in developing countries and experience working in conflict and/or post-conflict countries is highly desirable.

Mr. Ashraf's qualifications match the position and level requirements:

Education:

- B.S., Civil Engineering, Northrop University, Inglewood, California

Relevant Work Experience (requirement = minimum of 15 years for a Team Lead):

- Over 30 years of relevant work experience in civil engineering
- Over 20 years of relevant work experience directly in water-related engineering projects

Professional Engineer (PE) License is required.

- Holds a valid PE License

Mr. Afshar performed his duties well over the course of the program. He left the program when his assignment was completed, and all activities in the water sector were coming to an end.

The FDR rate for both of these Labor Categories is identical. No adjustment to the amounts billed is necessary.

Employee: Mr. Ghaleb Akari (Labeled as Employee B in the table)

Mr. Akari was hired as the Sr. Capacity Building Policy Advisor, who would be embedded in the Ministry of Energy and Water. The proposed FDR was Legal/Regulatory Advisor (Senior) 1017AA at \$1,080 for Option Year 1. The approval request was submitted and approved in August of 2012.

Although the Senior level of Mr. Akari's qualifications is not in doubt (see below summary of qualifications), there is no compatible Labor Category in the contract to match the functionality of his position. Mr. Akari was providing high level Policy advice and oversight of infrastructure activities in the Ministry of Energy and Water similar to the regulatory and statutory advice functionality of the Legal/Regulatory Advisor. IRD should have requested a separate Functional Labor Category of a Policy Advisor to fit this position. We believe the fixed daily rate for such category would be the same as that of the Regulatory Advisor Senior at \$1,080 in Option Year 1.

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Education:

- Master of Education and Training Development, Pennsylvania State University

Relevant Work Experience (requirement = minimum of 13 years):

- Over 18 years of relevant work experience

Mr. Akari performed his duties well over the course of the program. He left the program when his assignment was completed, and all activities in the water sector were coming to an end.

IRD proposes an offer in compromise of downgrading Mr. Akari’s position to an equivalent of Legal Regulatory Advisor Mid category 1017AB at \$795 for Option Year 1. IRD recognizes that it should have requested a new labor category in the appropriate Job Order negotiations, however, the high level technical advice provided by Mr. Akari should count towards the successful performance under the contract and a proposed settlement solution with IRD owing \$41,643 for the rate differences in all option years (per table below) is a reasonable alternative to total disallowance.

Job Order-4 : Ministry of Energy & Water

Option Year 1

'2017AA Legal/Regulatory Advisor(Sr)	Ghaleb Akari
'2017AB Legal/Regulatory Advisor(Mid)	Ghaleb Akari
Total Difference for Option Year 1	

Daily FDR	Total Questioned Costs Option Year 1	
	Days	Amount
\$1,080	38	\$41,040
\$795	38	\$30,210
		<u>\$10,830</u>

Option Year 2

'2017AA Legal/Regulatory Advisor(Sr)	Ghaleb Akari
'2017AB Legal/Regulatory Advisor(Mid)	Ghaleb Akari
Total Difference for Option Year 2	

Daily FDR	Total Questioned Costs Option Year 2	
	Days	Amount
\$1,112	99	\$110,088
\$819	99	\$81,081
		<u>\$29,007</u>

Option Year 3

'2017AA Legal/Regulatory Advisor(Sr)	Ghaleb Akari
'2017AB Legal/Regulatory Advisor(Mid)	Ghaleb Akari
Total Difference for Option Year 3	

Daily FDR	Total Questioned Costs Option Year 3	
	Days	Amount
\$1,145	6	\$6,870
\$844	6	\$5,064
		<u>\$1,806</u>

Cumulative Difference Option Years 1-3

\$41,643

Employee Name: Natalie Rubin (Labeled as Employee C in the table)

The finding is based on the incomplete background check file. Ms. Rubin is no longer employed by IRD and is on travel status overseas, so IRD was not able to

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obtain the alternative documentation before the completion of this response. Ms. Rubin agreed to provide the relevant documentation upon her return to the United States, at which point IRD will share it for final determination.

Employee Name: Dan Smock (Labeled as Employee D in the table)

Dan Smock was approved and billed in his initial position as 1014AC Security Manager Jr at \$663 per day from May 2012 – July of 2012. In reality, given Mr. Smock's qualifications (BA plus over 10 years of experience), he should have been billed at 1014AB Security Manager Mid at \$729 per day. In July of 2012 the COR requested that a different category be matched against Mr. Smock's functional position, which involved coordination of sensitive security activities (requiring clearance), security databases, liaison with other donor security organizations etc. Mr. Smock was therefore matched against a Donor Coordinator Sr position to better suit functionality of the liaison type services he provided, Labor Category 1013AA at \$693 per day for Option Year 1. This was approved by the virtue of CO's approval of the JO-04 detailed budget, including functional categories and assigned names, and incorporated into the contract.

However, despite the misleading title, the Donor Coordinator Position requires technical liaison services in regard to infrastructure activities and not operations liaison service or security database management. IRD concedes that the Donor Coordinator position was not a correct functional category.

IRD should have requested a separate category of labor to fit around Mr. Smock's functional position of Security Liaison or leave him in the Security Manager position at the Middle Level in accordance with his qualifications.

Having said that, even though the appropriate category for Mr. Smock should have been charged at the Middle Level position of a Security Manager at \$729 per day for Option Year 1, but in fact was charged at a Donor Coordinator Senior position level at \$693 per day, IRD proposes to settle this findings at no additional charge to the Government, accepting that the error occurred through the fault of IRD.

Corrective Action Plan: IRD shall implement a new process for verification and approval of Functional Labor Categories on Time & Material Contracts, with the final review and approval to be given internally by a qualified IRD Contracts Specialist before submission to the Government.

Finding 2015-04: Foreign Currency Translations

IRD Response: IRD partially agrees with this finding, related to the presence of calculation errors in the tested vouchers.

IRD acknowledges the need for additional and refresher trainings for both the HQ and the field staff. As a result of this finding, IRD implemented a series of checks

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and trainings for all EQUALS and HQ finance staff to minimize the possibility of errors in the rate calculations sheets. In addition, IRD added the exchange rate calculation as a recurring topic in the monthly WebEx meetings with all field finance managers.

Sincerely,

A handwritten signature in black ink, appearing to read 'V Ilic', written in a cursive style.

Vladan Ilic
Assistant Vice President, Program Finance

Appendix B: Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of International Relief and Development, Inc. ("IRD" or "the auditee"), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

Finding 2015-01

Crowe has reviewed IRD's response. We note that IRD disagrees with the portion of the finding pertaining to evidence of management's review of the quarterly accrual reports. IRD indicated that the Manager of Donor Reporting and Cash Management has the necessary authority to submit reports to USAID with a copy to the Director of Donor Reporting and Cash Management. However, the finding does not assert that the report cannot be submitted to USAID by the manager; rather, the portion of the finding to which IRD has disagreed pertains to IRD's not retaining documentation to demonstrate that IRD followed its internal reporting procedures. As noted within the *criteria*, quarterly accrual and expenditure reports are required to be reviewed and approved by the Director of Donor Reporting and Cash Management. IRD did not retain evidence of the Director's review and approval. Accordingly, the finding has not been modified.

Finding 2015-02

IRD partially agreed with the audit finding. Within management's response, we noted that IRD did not disagree with any facts underlying the finding. Accordingly, the finding and questioned costs remain unchanged.

Finding 2015-03

IRD partially agreed with the audit finding. We noted that IRD did not disagree with the facts underlying the finding. However, IRD did include suggested approaches to resolving the issues presented within the finding for USAID's consideration. The approaches presented include retroactive reclassifications of personnel to different labor categories or to lower experience levels within the labor categories that were used for billing. The suggested approaches would not result in repayment of the costs that are questioned within the finding. Whereas IRD has not disagreed with the facts resulting in the finding or the amounts billed, the costs reflected within the finding are reflected on the Special Purpose Financial Statement and have been claimed by IRD and reimbursed by the Government, and decisions regarding retroactive adjustments to billings are not within the scope of the audit, we have not modified the finding, the finding and questioned costs remain unchanged.

Finding 2015-04

IRD partially agreed with the audit finding. Within management's response, we noted that IRD did not disagree with any facts underlying the finding. Accordingly, the finding and questioned costs remain unchanged.

Appendix C: Foreign Currency Translation Errors

Voucher	Month	Base Amount (AFN)	Cognos Conversion Rate	Amount Charged (USD)	Recalculated WAER	Expected Charge Amount	Over(Under) Charge - All Amounts Rounded to the nearest \$1
210606987	Jan-15	10,000	0.01757	\$ 176	0.01846	\$ 185	\$ (9)
210606961	Jan-15	731	0.01758	\$ 13	0.01846	\$ 13	\$ (1)
210607063	Feb-15	1,100	0.01753	\$ 19	0.01781	\$ 20	\$ (0)
210607064	Feb-15	6,646	0.01752	\$ 116	0.01781	\$ 118	\$ (2)
210607066	Feb-15	10,500	0.01752	\$ 184	0.01781	\$ 187	\$ (3)
210607095	Feb-15	625	0.01754	\$ 11	0.01781	\$ 11	\$ (0)
210607217	Mar-15	10,000	0.01737	\$ 174	0.01760	\$ 176	\$ (2)
210607157	Mar-15	1,200	0.01747	\$ 21	0.01749	\$ 21	\$ (0)
210607209	Mar-15	900	0.01737	\$ 16	0.01763	\$ 16	\$ (0)
210607156	Mar-15	5,850	0.01746	\$ 102	0.01749	\$ 102	\$ (0)

Voucher	Month	Base Amount (AFN)	Cognos Conversion Rate	Amount Charged (USD)	Recalculated WAER	Expected Charge Amount	Over(Under) Charge - All Amounts Rounded to the nearest \$1
210607153	Mar-15	6,000	0.01746	\$ 105	0.01749	\$ 105	\$ (0)
210604340	Jan-14	106,825	0.01786	\$ 1,908	0.01788	\$ 1,910	\$ (2)
210604429	Jan-14	31,100	0.01783	\$ 554	0.01775	\$ 552	\$ 3
210604421	Jan-14	28,788	0.01783	\$ 513	0.01774	\$ 511	\$ 2
210604540	Feb-14	54,481	0.01755	\$ 956	0.01756	\$ 957	\$ (1)
210604531	Feb-14	1,300	0.01764	\$ 23	0.01657	\$ 22	\$ 1
210604532	Feb-14	4,500	0.01764	\$ 79	0.01657	\$ 75	\$ 5
210604584	Feb-14	8,751	0.01753	\$ 153	0.01722	\$ 151	\$ 3
210604583	Feb-14	10,500	0.01764	\$ 185	0.01722	\$ 181	\$ 4
210604661	Mar-14	31,775	0.01787	\$ 568	0.01721	\$ 547	\$ 21

Voucher	Month	Base Amount (AFN)	Cognos Conversion Rate	Amount Charged (USD)	Recalculated WAER	Expected Charge Amount	Over(Under) Charge - All Amounts Rounded to the nearest \$1
210604682	Mar-14	324,385	0.01713	\$ 5,555	0.01653	\$ 5,363	\$ 192
210604679	Mar-14	242,360	0.01713	\$ 4,151	0.01636	\$ 3,965	\$ 185
210604667	Mar-14	3,614,600	0.01747	\$ 63,137	0.01683	\$ 60,840	\$ 2,297
210604720	Mar-14	16,979	0.01787	\$ 303	0.01766	\$ 300	\$ 3
210604736	Mar-14	28,788	0.01766	\$ 508	0.01770	\$ 510	\$ (1)
Net Overcharges							\$ 2,695

LEGEND

AFN – Afghan Afghani

Cognos – IRD’s financial accounting system

USD – United States Dollar

WAER – Weighted Average Exchange Rate

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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- Phone International: +1-866-329-8893
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