

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 18-26 Financial Audit**

Department of Defense Task Force for Business  
and Stability Operations' Mineral Tender  
Development and Geological Services: Audit of  
Costs Incurred by SRK Consulting (U.S.) Inc.

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



JANUARY  
2018

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On April 3, 2014, the Department of the Interior (DOI) awarded a 9-month, \$2 million contract to SRK Consulting (U.S.) Inc. (SRK) on behalf of the Department of Defense's Task Force for Business and Stability Operations (TFBSO). The contract was intended to facilitate the tender of bids by domestic and foreign investors to explore and exploit mineral wealth in Afghanistan. SRK was required to advise TFBSO on issues related to mineral tenders and assets, and artisanal mining licensing. After six modifications, the contract's ceiling was increased to \$2,884,459.

SIGAR's financial audit, performed by Williams Adley and Company-DC LLP (Williams Adley), reviewed \$2,884,459 in expenditures charged to the contract from April 3, 2014, to December 31, 2014. The objectives of the audit were to: (1) identify and report on significant deficiencies or material weaknesses in SRK'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 SRK has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of SRK's Special Purpose Financial Statement. See Williams Adley'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 Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2018

## Department of Defense Task Force for Business and Stability Operations' Mineral Tender Development and Geological Services: Audit of Costs Incurred by SRK Consulting (U.S.) Inc.

SIGAR 18-26-FA

### WHAT THE AUDIT FOUND

Williams Adley identified one significant deficiency in SRK's internal controls and one instance of noncompliance with the terms and conditions of the contract. Williams Adley found that SRK did not maintain evidence of the project manager's approval of timesheets. In addition, SRK did not provide documentation to support a travel charge.

Because of the unsupported travel expenditure charged to the contract, Williams Adley identified \$764 in questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required proper approvals. Williams Adley did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Undocumented Travel	\$0	\$764	\$764
<b>Totals</b>	<b>\$0</b>	<b>\$764</b>	<b>\$764</b>

Williams Adley sought prior audit reports and corrective actions to determine their impact on the audit, but did not identify any findings or recommendations from prior engagements.

Williams Adley issued an unmodified opinion on SRK's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, the respective revenues earned, costs incurred, and items directly procured by the U.S. government.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible DOD Program Officer coordinate with DOI to:

- 1. Determine the allowability of and recover, as appropriate, \$764 in unsupported travel costs.**
- 2. Advise SRK to address the report's one internal control finding.**
- 3. Advise SRK to address the report's one noncompliance finding.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

January 24, 2018

The Honorable James N. Mattis  
Secretary of Defense

General Joseph L. Votel  
Commander, U.S. Central Command

General John W. Nicholson, Jr.  
Commander, U.S. Forces–Afghanistan and  
Commander, Resolute Support

We contracted with Williams Adley-DC LLC (Williams Adley) to audit the costs incurred by SRK Consulting (U.S.) Inc. (SRK) under a Department of Defense (DOD) Task Force for Business and Stability Operations (TFBSO) contract to provide mineral tender development and geologic services in Afghanistan.<sup>1</sup> Williams Adley's audit covered \$2,884,459 in expenditures charged to the contract between April 3, 2014, and December 31, 2014. Our contract 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 DOD Program Officer coordinate with the Department of the Interior to:

- 1. Determine the allowability of and recover, as appropriate, \$764 in questioned costs identified in the report.**
- 2. Advise SRK to address the report's one internal control finding.**
- 3. Advise SRK to address the report's one noncompliance finding.**

The results of Williams Adley's audit are in the attached report. We reviewed the 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 SRK's Special Purpose Financial Statement. We also express no opinion on the effectiveness of SRK's internal controls or compliance with the contract, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-107)

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<sup>1</sup> The Department of the Interior awarded contract number DC14PC00098 to SRK on TFBSO's behalf. The contract was intended to facilitate the tender of bids by domestic and foreign investors to explore and exploit mineral wealth in Afghanistan.

**OFFICE OF THE  
SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION**

**Financial Audit of Costs Incurred**

by

**SRK Consulting (U.S.), Inc.**

Under

Contract Number DC14PC00098

For the Period

**April 3, 2014 to December 31, 2014**

Submitted by



January 23, 2018

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## Transmittal Letter

January 23, 2018

Board of Directors  
SRK Consulting (U.S.), Inc.  
1125 17<sup>th</sup> St. Suite 600  
Denver, CO 80202

Office of the Special Inspector General for Afghanistan Reconstruction  
Arlington, VA

Williams, Adley and Company-DC, LLP (referred to as “Williams Adley” or “we”) provide to you our report, which reflects results from the procedures we completed during our audit of the SRK Consulting (U.S.), Inc. (hereinafter “SRK Consulting”) contract under contract number D14PC00098 with the United States Department of Defense, Task Force for Business and Stability Operations funded reconstruction program in Afghanistan.

On October 12, 2017, we provided SIGAR a draft report reflecting our audit procedures and results. SRK Consulting received a copy of the report on December 4, 2017 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and SRK Consulting. SRK Consulting’s responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this SRK Consulting contract.

Sincerely,

A handwritten signature in cursive script that reads 'Jocelyn Hill'.

Jocelyn A. Hill, CPA  
Partner

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

1030 15<sup>th</sup> Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

[www.williamsadley.com](http://www.williamsadley.com)

## Summary

### Background

Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. Thus, the United States Department of Defense (DoD) funded reconstruction activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The United States Department of Interior (DOI), on behalf of the Task Force for Business and Stability Operations (TFBSO<sup>1</sup>), contracted SRK Consulting (U.S.), Inc. (hereinafter “SRK Consulting”) for services related to reconstruction activities in Afghanistan. The funding for the task order was provided by DoD’s TFBSO in Afghanistan. The TFBSO was DoD’s principal vehicle for stimulating private sector growth and investment in Afghanistan’s economy. The TFBSO’s mandate was in the “development of economic opportunities, including private investment, industrial development, banking and financial system development, agriculture diversification and revitalization, and energy development” in Afghanistan.

DOI awarded a \$2.8 million time and materials contract for Mineral Tender Development & Geological Services to SRK Consulting to facilitate the tender of bids to explore and exploit mineral wealth in Afghanistan by domestic and foreign investors. SRK Consulting was to advise TFBSO on issues related to mineral tenders, mineral assets and artisanal mining licensing. In addition, SRK Consulting’s contractual duties included working with the Ministry of Mines and Petroleum to advise, train and build capacity on issues relating to mineral tendering and mineral asset management.

**Table 1: SRK Consulting Contract with Modifications**

	Start date	Amount Funded (Obligated)	Cumulative Award value	Purpose
Base Year	4/3/2014	\$2,000,000	\$2,000,000	Base Funding
Mod 1	5/16/2014	\$0	\$2,000,000	Administrative
Mod 2	6/2/2014	\$0	\$2,000,000	Administrative

<sup>1</sup> TFBSO ceased operations on November 21, 2014

	Start date	Amount Funded (Obligated)	Cumulative Award value	Purpose
Mod 3	7/3/2014	\$0	\$2,000,000	Administrative
Mod 4	9/11/2014	\$3,598,223	\$5,598,223	Incremental Funding
Mod 5	11/4/2014	\$0	\$5,598,223	Administrative
Mod 6*	4/15/2015	(\$2,713,763)	\$2,884,460	De-obligation of Funds
<b>TOTAL</b>		<b>\$2,884,460</b>	<b>\$2,884,460</b>	

\*This modification occurred subsequent to the audit period and is not part of the audited Statement.

SIGAR contracted Williams, Adley and Company-DC, LLP (Williams Adley) to audit costs incurred under the time and materials contract, D14PC00098, and associated modifications awarded to SRK Consulting. The audited period of performance for the engagement is April 3, 2014 to December 31, 2014.

## Objectives

The objectives of the audit are to:

1. Special Purpose Financial Statement – Express an opinion on whether the Special Purpose Financial Statement for the contract 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 contract and generally accepted accounting principles or other comprehensive basis of accounting.
2. Internal Controls – Evaluate and obtain a sufficient understanding of SRK Consulting’s internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Compliance – Perform tests to determine whether SRK Consulting complied, in all material respects, with the contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract and applicable laws and regulations, including

potential fraud or abuse that may have occurred.

4. Corrective Action on Prior Findings and Recommendations – Determine and report on whether SRK Consulting has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

## Scope

In general, our scope of work includes the TFBSO time and materials contract “D14PC00098” and related modifications executed for costs incurred between April 3, 2014 and December 31, 2014.

For the above contract, the engagement services included the following:

1. We performed a financial audit of incurred costs by SRK Consulting under the contract listed above that was funded by the TFBSO.
2. We conducted sufficient testing to express an opinion on the engagement objectives. The major areas of review included the following:
  - i. Administrative Procedures and Fraud Risk Assessment
  - ii. Budget Management
  - iii. Cash Management
  - iv. Disbursement and Financial Reporting
  - v. Procurement and Inventory Management
3. We performed compliance testing, including, but not limited to, activities allowed or disallowed; allowable costs under cost principles; cost determination for indirect costs; cash management; costs incurred eligibility; period of availability of Federal funds; procurement, suspension and debarment; program income; and reporting.
4. We reviewed transactions for the period from April 3, 2014 to December 31, 2014 and subsequent events and information that may have a significant impact on the findings and questioned costs for the audit period.
5. We expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

Our audit was conducted to form an opinion on the Special Purpose Financial Statement in accordance with the Special Purpose Financial Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents, Summary and Management Response to Audit Findings are presented

for informational and organizational content purposes, or additional analysis, and are not required parts of the Special Purpose Financial Statement. Such information has not been subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we do not express an opinion or provide any assurance on it.

- The scope of our audit does not include procedures to verify the efficacy of the TFBSO funded program, and accordingly, we do not express an opinion or provide any assurance on it.

## Methodology

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards, 2011 revision (or "Yellow Book"). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Special Purpose Financial Statement of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of SRK Consulting's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Special Purpose Financial Statement.

To meet the audit objectives, we prepared an audit plan for the engagement. We reviewed applicable background materials, including contracts, auditee financial progress reports, DoD regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as applicable, to gain a thorough understanding of the control environment, the requirements of the contract, and any past findings and recommendations that may impact the audit. If prior audits indicated a need for corrective action to be taken by SRK Consulting, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations. We requested and received supporting documentation for compliance evaluation of incurred costs and gained an understanding of the internal control related thereto. We assessed the control risk for sampling and testing purposes.

We used both statistical and judgmental sampling techniques to select direct labor, subcontract, travel, and other direct cost samples to test for allowable incurred costs based on our risk assessment, and reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards, as applicable.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

## Summary of Results

We issued an unmodified opinion on SRK Consulting’s Special Purpose Financial Statement. We also reported on SRK Consulting’s internal control over financial reporting and compliance with contract terms, laws and regulations.

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations, or are unnecessary or unreasonable expenditure of funds. Unsupported costs are those costs for which SRK Consulting was unable to provide sufficient supporting documentation, including evidence of proper approvals, for us to determine the accuracy and allowability of the costs.

We identified two findings, one of which is considered a significant deficiency in internal control. The other finding, which was a noncompliance issue, resulted in questioned unsupported costs in the amount of \$764. These findings pertain to costs incurred under the contract for SRK Consulting’s travel expenses and missing timesheet and subcontractor invoice approvals as follows:

Finding	Description	Ineligible Costs	Unsupported Costs	Total Questioned Cost
2017-01	Missing Approvals on labor charges – significant deficiency in internal control	\$0	\$0	\$0
2017-02	Missing travel supporting documentation	\$0	\$764	\$764
<b>Totals</b>		<b>\$0</b>	<b>\$764</b>	<b>\$764</b>

## Summary of Prior Audit Reports

We requested from SRK Consulting prior audit reports and corrective action recommendations to determine the impact on our audit, as well as to evaluate the adequacy of the corrective actions implemented. We reviewed SRK Consulting’s financial statement review performed by EKS&H LLP for fiscal year 2014, for which SRK Consulting’s financial statements did not have any material modifications. There were no prior findings and recommendations in the referenced audit report for which corrective action plans were needed or remained unresolved for the current audit period. We also

inquired about audit reports issued by the Defense Contract Audit Agency and researched the SIGAR website for prior audit reports on SRK Consulting. No additional audit reports came to our attention from these efforts.

## Summary of Management Comments on Audit Report

Management's response focused on SRK Consulting's belief that a site visit by Williams Adley would have provided a better understanding of the business processes concerning timesheet and subcontractor invoice approvals under Finding 2017-01, and background and documentation evidence concerning the questioned travel costs under Finding 2017-02. Management acknowledged the recommendations to improve internal controls related to labor costs and subcontractor invoices on future DoD contracts and provided an explanation for the questioned travel costs.

The full text of management response is in Attachment B of this report. Our response to management's comments is provided in Attachment C.

## Attachments

The auditor's reports are supplemented by three attachments:

Attachment A includes the Schedule of Findings and Questioned Costs.

Attachment B contains SRK Consulting's official management response to the draft report.

Attachment C contains the auditor's response to management comments.



## **Independent Auditor's Report on the Special Purpose Financial Statement**

Board of Directors  
SRK Consulting (U.S.), Inc.  
1125 17<sup>th</sup> St. Suite 600  
Denver, CO 80202

### ***Report on the Special Purpose Financial Statement***

We have audited the special purpose financial statement of SRK Consulting (U.S.), Inc. (hereinafter "SRK Consulting") under contract number D14PC00098 funded by the Task Force for Business and Stability Operations for the period April 3, 2014 through December 31, 2014. The special purpose financial statement ("Statement") is the responsibility of SRK Consulting's management.

### ***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 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 Statement) that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with generally accepted government auditing standards (GAGAS) 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 to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as, evaluating the overall presentation of the Statement.

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

***Opinion***

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period April 3, 2014 through December 31, 2014 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the Statement.

***Other Reporting Required by GAGAS***

In accordance with GAGAS, we have also issued our reports, dated September 15, 2017, on our consideration of SRK Consulting's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 GAGAS in considering SRK Consulting's internal control over financial reporting and compliance.

***Restriction on Use***

This report is intended for the information of SRK Consulting, Department of Defense, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Williams, Adley & Company - DC, LLP*

Washington, D.C.  
September 15, 2017

**SRK Consulting (U.S.), Inc.**  
**Special Purpose Financial Statement for Costs Incurred**  
Under Contract Number D14PC00098  
**For the Period of April 3, 2014 to December 31, 2014**

Revenues	Budget	Actual	Questioned Cost		Notes <sup>2</sup>
			Ineligible	Unsupported	
D14PC00098					
00010-Mineral Tender Development & Geological Services	\$2,000,000	\$1,918,894			
00020-Legal & Geological Advisory Services	\$3,598,223	\$965,565			
<b>Total Revenue</b>	<b>\$5,598,223</b>	<b>\$2,884,459</b>			1
<b>Costs Incurred</b>					
Direct Labor	\$5,123,114	\$2,734,510			
Other Direct Costs – Non- Labor	\$42,000	\$0			
DBA Insurance	\$179,309	\$60,727			
Travel	\$253,800	\$89,222		\$764	A
<b>Total Costs Incurred</b>	<b>\$5,598,223</b>	<b>\$2,884,459</b>			
<i>Outstanding Balance</i>	<b>\$0</b>	<b>\$0</b>		<b>\$764</b>	

<sup>2</sup> The Notes to the Special Purpose Financial Statement are an integral part of the financial statement.

## Notes to the Special Purpose Financial Statement<sup>3</sup>

For the Period of April 3, 2014 to December 31, 2014

### Note 1. Status and Operation

SRK Consulting (U.S.), Inc. (SRK Consulting) is a Colorado corporation that provides engineering, environmental science, and technical consulting services predominately to worldwide mining companies and to legal and financing entities with interest in the mining industry. SRK Consulting maintains offices in Denver, Colorado; Fort Collins, Colorado; Anchorage, Alaska; Tucson, Arizona; Elko, Nevada; Reno, Nevada and Clovis, California. The Company presently has 115 employees and annual revenues of [REDACTED]. The address of its registered office and principal place of business is 1125 17<sup>th</sup> Street, Suite 600, Denver, Colorado 80202-2052 USA.

On April 3, 2014, the Department of the Interior awarded SRK Consulting a time and material contract, Contract No. D14PC00098 for the provision of professional business analysis, advisory and assistance support services to the Department of Defense Task Force to Improve Business and Stability Operations (TFBSO). The initial objective of SRK Consulting's scope of services was to provide the US Government, through the TFBSO, information on the current position of Afghanistan's governmental and legal infrastructure related to mining, to apply SRK Consulting's global experience in advancing tender targets, and ultimately to assist the Government of Afghanistan in developing a world class tender process which both sustainable and efficient and to implement the tender process with respect to potential tender targets. The total amount awarded under the contract and its modifications was \$2,884,459.

Please note that MOD 6, which includes the de-obligation of \$2,713,763 from the budget amount, was effective after the period under review on the Statement, and therefore, is not deducted from the budget total on the Special Purpose Financial Statement.

### Note 2. Summary of Significant Accounting Policies

#### *a. Basis of Accounting*

The Special Purpose Financial Statement (the "Statement") presents the revenues received and the expenditures incurred by SRK Consulting under Contract No. D14PC00098 for the period from April 7, 2014 to December 31, 2014. The Statement presents only a selected portion of SRK Consulting's operations, and it is not intended to and does not present the financial position and cash flows of SRK Consulting. The Special Purpose Financial Statement has been prepared on the cash basis of accounting. Under this basis, revenues are recognized if received, and expenses are recognized if paid.

#### *b. Foreign Currency Conversion Method*

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<sup>3</sup>Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of SRK Consulting's management.

The Special Purpose Financial Statement is presented in United States Dollars.

**Note 3. Revenues**

Revenue on the Special Purpose Financial Statement represents the total amount invoiced to and received from the DOI under the contract.

**(a) Labor**

Revenue on the Special Purpose Financial Statement represents the total amount invoiced to and received from the DOI under the contract.

**(b) Materials**

All non-labor allowable costs incurred by SRK Consulting under this contract were invoiced at cost.

**Note 4. Cost Categories**

The costs incurred reported on the Schedule of Cost Incurred are presented in accordance with the labor categories and expense categories presented in SRK Consulting's Technical Proposal and in modifications issued to the contract.

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>4</sup>**

**Note A: Questioned Cost – Travel Costs**

Finding 2017-02 questions \$764 as we were not provided proper documentation to support travel costs that were billed to the government.

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<sup>4</sup> Alphabetic notes to the questioned costs presented on the special purpose financial statement were developed by and are the responsibility of the auditor.



### **Independent Auditor's Report on Internal Control**

Board of Directors  
SRK Consulting (U.S.), Inc.  
1125 17<sup>th</sup> St., Suite 600  
Denver, CO 80202

We have audited the special purpose financial statement ("Statement") of SRK Consulting (U.S.), Inc. (hereinafter "SRK Consulting") for the period April 3, 2014 through December 31, 2014, and have issued our report on it, dated September 15, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) 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.

#### ***Internal Control over Financial Reporting***

The management of SRK Consulting is responsible for establishing and maintaining 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 agreements; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting described in Note 2 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 SRK Consulting's Statement for the period April 3, 2014 through December 31, 2014, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not note any findings that we considered to be a material weakness as defined above, but we did observe one finding on matters involving internal control and its operation that we consider to be a significant deficiency in internal control, which is described in Finding 2017-01 in the Schedule of Findings and Questioned Costs.

### ***Restriction on Use***

This report is intended for the information of SRK Consulting, the Department of Defense, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Williams, Adley & Company - DC, LLP*

Washington, D.C.  
September 15, 2017



### Independent Auditor's Report on Compliance

Board of Directors  
SRK Consulting (U.S.), Inc.  
1125 17<sup>th</sup> Street, Suite 600  
Denver, CO USA 80202

We have audited the special purpose financial statement ("Statement") of SRK Consulting (U.S.), Inc. (hereinafter "SRK Consulting") for the period April 3, 2014 through December 31, 2014, and have issued our report on it, dated September 15, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

#### ***Compliance and Other Matters***

Compliance with agreement terms and laws and regulations applicable to SRK Consulting is the responsibility of SRK Consulting's management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of SRK Consulting's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

In performing 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.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our tests did not disclose instances of noncompliance required to be reported under GAGAS. We identified one instance of noncompliance not material to the Statement, which is required to be reported in accordance with the contract with the Special Inspector General for Afghanistan Reconstruction (SIGAR). This instance of noncompliance is described in the accompanying Schedule of Findings and Questioned Costs as finding 2017-02.

***Restriction on Use***

This report is intended for the information of SRK Consulting, Department of Defense and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Williams, Adley & Company-DC, LLP*

Washington, D.C.  
September 15, 2017

**Attachment A – Schedule of Findings and Questioned Costs**

**Finding 2017-01: Timesheet and Subcontractor Invoice Approval**

**Nature of Finding:** Significant Deficiency in Internal Control

**Condition:** During the review of our 146 payroll test samples, which represented \$308,938 of the \$2,734,510 in total labor costs, we noted none of the payroll transactions we sampled had the signature of an approving official on the invoices or timesheets provided. This deficiency indicated a significant deficiency in internal control over the following labor costs:

**Payroll Disbursements Tested – Missing Approvals**

Subcontractor	Disbursements Tested
SRK Exploration	\$69,200
Mayor Brown	\$152,438
SRK Consulting	\$80,100
Independent Contractor/Associate	\$7,200
<b>TOTAL</b>	<b>\$ 308,938</b>

**Criteria:** The DCAA Manual No. 7641.90, *Information For Contractors*, which is designed to assist contractors in understanding applicable requirements and to help ease the contract audit process, provides a recommended timekeeping policy. Pursuant to Enclosure 2, paragraph 4(c)(1) of the manual, under the heading, Recommended Timekeeping Policy, “the supervisor should approve and co-sign all timesheets.”

**Cause:** SRK Consulting did not maintain evidence of the project manager’s approval of all timesheets and subcontractor invoices. In requesting written policies and procedures on contract management administration, human resource management, employee code of conduct, subcontractor monitoring and fraud and illegal acts, we noted that SRK Consulting did not have formal written policies and procedures available for review that clearly demonstrated these policies and procedures were implemented during our audit scope. Although SRK Consulting did provide a write-up of its processes for our review and records, the lack of formal written policies and procedures, and enforcement thereof, contributed to the internal control weakness we observed.

**Effect:** By not maintaining evidence of proper approvals for payroll timesheets and subcontractor invoices, we could not ensure that SRK Consulting’s internal control for these costs was effective, which increased the risk of an inaccurate billing of labor costs.

**Recommendation:** We recommend that SRK Consulting:

1. Improve internal controls related to labor costs by establishing and implementing policies and procedures that require the review and written approval of timesheets prior to payment.
2. Improve internal control regarding the monitoring and processing of subcontractor invoices for labor costs by establishing and implementing policies and procedures that require signed approval of the invoices after validating the billed amounts align with agreed upon subcontracted services.

## Finding 2017-02: Unsupported Travel Costs

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** We tested samples totaling \$85,801 of the \$149,949 in non-payroll disbursements billed by SRK Consulting under its contract. In reviewing the non-payroll sample, we noted a travel cost of \$764 which was billed on invoice #9 and for which SRK Consulting could not provide documentation to support the amount billed or how they came up with the calculated amount in totality. Therefore, Williams Adley calculated \$764 in unsupported costs.

**Criteria:** Federal Acquisition Regulation (FAR) under section 31.205-46(a) (7), Travel, states:

Costs shall be allowable only if the following information is documented –

- i. Date and place (city, town or other similar designation) of expenses
- ii. Purpose of trip; and
- iii. Name of person on trip and that person's title and relationship to the contractor

Also, pursuant to FAR) at section: 31.201-2, Determining Allowability:

- (d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost which is inadequately supported.

**Cause:** In the one instance we observed, SRK Consulting failed to properly match the invoiced amount with supporting documentation. Because SRK Consulting did not have written policies and procedures in place for the review and approval of invoices that included supervisory review and sign-off that the invoice was properly supported, this error was not caught and corrected.

**Effect:** SRK Consulting's failure to provide supporting documentation for a travel invoice increased the risk that the Government made excessive payments for billed travel costs and resulted in questioned costs of \$764. Also, SRK Consulting was not in full compliance with Federal regulations that require the contractor to appropriately account for travel costs.

**Recommendation:** We recommend that SRK Consulting:

1. Develop and implement policies and procedures that include maintaining travel receipts documentation that matches the reimbursement request, and supervisory

verification of the related invoices for accuracy, completeness and correctness before submitting for reimbursement.

2. Provide DoD with adequate documentation to support the questioned travel costs or reimburse DoD that portion of the \$764 of travel costs that is unsupported.

**Attachment B – Management’s Response to Audit Findings**

**Responses to Audit Findings – Financial Audit of Costs Incurred by SRK Consulting (U.S.), Inc. under Contract Number DC14PC00098.**

**Incorrect name**

All references to “SRK Consulting, Inc” should be replaced with “SRK Consulting (U.S.), Inc.”.

**Finding 2017-01: Timesheet and Subcontractor Invoice Approval**

At the commencement of the audit, Williams Adley indicated that would travel to SRK’s Denver office to conduct the field work. Williams Adley never visited SRK’s office. Had a visit to the office occurred, Williams Adley probably would have gain a better understanding of timesheet procedures and subcontractor approval processes.

However, SRK acknowledges the recommendations presented in Attachment A and will improve internal controls related to labor costs and related to subcontractor invoices on future DOD contracts.

**Finding 2017-02: Unsupported Travel Costs**

The \$764 travel cost referenced was for travel costs incurred by Dr. Rigby. These costs were related to lodging and meals which were subject to daily maximums. The costs were charged to Dr. Rigby’s Wells Fargo corporate credit card at the actual cost incurred and SRK absorbed the amount above the maximum daily. Actuals for lodging, meals and incidentals will not match the daily maximums. Details of these costs are

Description	Calculation	Amount
Lodging	3 days @ \$167	\$501.00
Travel M&IE	2 days @ \$53.25	\$106.50
Meals	1 day @ \$71	\$71.00
Ground Transportation		<u>\$85.35</u>
Charges to Wells Fargo Credit Card		\$763.85

To record Invoice number 9 in the accounting system, a reclassification of the amount recorded on the initial accounts payable was made. A debit of \$763.85 (i.e. the referenced \$764) was recorded against invoice 9 and a credit of \$763.85 was recorded as unassigned project cost.

Again, if Williams Adley had visited the SRK's Denver office to conduct their field work, the background and the documentation for this entry would have probably been more evident.

**Attachment C – Auditor’s Response to Management Comments.**

In consideration of the views presented by SRK Consulting’s management, we present the following rebuttal or clarification to certain matters. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist the users of this report in their evaluation of the findings and recommendations included herein. In those instances where management’s response did not provide new information or support to modify the facts and circumstances of the findings, and where management agrees with the findings presented, we have not provided a response.

**Finding 2017-02: Unsupported Travel Costs**

In its official response, SRK Consulting’s management disputed that the questioned cost was unsupported. Management provided a table with calculations to show how the travel cost was computed and explained that the calculation was needed because actual costs exceeded the allowable ceiling per diem amounts. Management further stated that if Williams Adley had traveled to Denver, Colorado, the background and documentation for the entry would have been more evident.

While SRK Consulting’s calculation is feasible, additional supporting documentation was not provided. We reject the notion that traveling to Denver, Colorado contributed to the documentation not being more evident. The calculations SRK Consulting presented in its response were never offered in numerous discussions with SRK Consulting concerning this issue, and we still are unsure of the documentation to which management is referring. Therefore, the finding and recommendation remain as stated.

We did note the correction of SRK Consulting’s official name, which has been made in this report.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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