

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 19-13 Financial Audit

USAID's Support to the Sheberghan Gas
Generation Activity: Audit of Costs
Incurred by Advanced Engineering
Associates International Inc.



JANUARY
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 21, 2011, the U.S. Agency for International Development (USAID) awarded a \$31,780,600 cost-plus-fixed-fee task order to Advanced Engineering Associates International Inc. (AEAI). AEAJ was to provide training and technical assistance, and increase employees' ability to manage activities for the Afghan Ministry of Mines (MOM) in support of the Sheberghan Gas Generation Activity. The period of performance was from December 21, 2011, to June 20, 2013. USAID modified the task order six times, extending the date of completion to July 31, 2016, and reducing the cost to \$30,440,956.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$4,571,929 in costs and fixed fees charged to the task order from January 1, 2016, through July 31, 2016. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in AEAJ's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AEAJ has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AEAJ's Special Purpose Financial Statement (SPFS). 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 2019

USAID's Support to the Sheberghan Gas Generation Activity: Audit of Costs Incurred by Advanced Engineering Associates International Inc.

SIGAR 19-13-FA

WHAT THE AUDIT FOUND

Crowe found two material weaknesses and one significant deficiency in AEAJ's internal controls, and four instances of noncompliance with the terms and conditions of the task order and applicable laws and regulations. For example, Crowe identified missing elements in AEAJ's asset inventory list because the contractor did not properly maintain records of government property. In addition, Crowe questioned \$23,400 in unsupported costs for one subcontractor due to inadequate documentation to support the reasonableness of costs for the sole source procurement.

Finally, Crowe found that AEAJ used an incorrect foreign currency exchange rate, resulting in an overbilling of \$176. Crowe also compared recorded costs incurred on the SPFS with costs in the accounting system and found a difference of \$9,941 that AEAJ could not justify.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified a total of \$33,517 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—and unsupported questioned costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$176	\$33,341	\$33,517
Total	\$176	\$33,341	\$33,517

Crowe reviewed two prior audits pertaining to AEAJ's task order and identified five findings. AEAJ took corrective actions to address four of them. The fifth finding concerning insufficient sole-source justification was repeated in this audit. Therefore, Crowe concluded that AEAJ did not take adequate corrective actions on one of five prior findings.

Crowe issued an unmodified opinion on AEAJ's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred and reimbursed for period indicated.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$33,517 in questioned costs identified in the report.**
- 2. Advise AEAJ to address the report's three internal control findings.**
- 3. Advise AEAJ to address the report's four noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 22, 2019

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by Advanced Engineering Associates International Inc. (AEAI) under a U.S. Agency for International Development (USAID) task order to provide training and technical assistance, and increase employees' ability to manage activities for the Afghan Ministry of Mines (MOM) in support of the Sheberghan Gas Generation Activity.¹ Crowe reviewed \$4,571,929 in expenditures and fixed fees charged to the task order from January 1, 2016, through July 31, 2016. Our contract with Crowe required that the audit be performed in accordance with 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, \$33,517 in questioned costs identified in the report.**
- 2. Advise AEAI to address the report's three internal control findings.**
- 3. Advise AEAI to address the report's four noncompliance findings.**

The results of Crowe's audit are discussed in detail 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 AEAI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of AEAI's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Crowe did not comply, in all material respects, with 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.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-120)

¹ The task order number is AID-306-TO-12-00002, under contract number EPP-I-00-03-00004-00.



Advanced Engineering Associates International, Inc.

Special Purpose Financial Statement

Contract No. EPP-I-00-03-00004-00, Task Order No. AID-306-TO-12-00002

For the Period January 1, 2016 through July 31, 2016

(With Independent Auditor's Report Thereon)

Table of Contents

TRANSMITTAL LETTER.....	1
SUMMARY.....	2
INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	7
SPECIAL PURPOSE FINANCIAL STATEMENT	9
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	10
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT	12
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL.....	13
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE.....	15
SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	17
SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS	23
APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS	26
APPENDIX B - AUDITOR’S REBUTTAL.....	28



Crowe LLP

Independent Member Crowe Global

1455 Pennsylvania Avenue, N.W., Suite 700

Washington, D.C. 20004-1008

Tel +1 202 624 5555

Fax +1 202 624 8858

www.crowe.com

TRANSMITTAL LETTER

January 3, 2019

Chairperson and Senior Management of Advanced Engineering Associates International, Inc.
185 Alewife Brook Parkway, Suite 400
Cambridge, Massachusetts 02138-1107

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Advanced Engineering Associates International, Inc.'s ("AEAI") contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002 for the period January 1, 2016 through July 31, 2016.

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. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of AEAI, SIGAR, and the United States Agency for International Development provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's response to the findings have been incorporated as an appendix to the final report.

Thank you for providing us the opportunity to work with you and to conduct the audit of AEAI's contract task order.

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

Advanced Engineering Associates International, Inc. (“AEAI”) was awarded task order AID-306-TO-12-00002 under contract number EPP-I-00-03-00004-00 issued by the U.S. Agency for International Development (“USAID”) Mission in Afghanistan’s Office of Acquisition and Assistance as a cost plus fixed fee completion task order. AEA I is a global engineering, energy and environmental services company founded in Massachusetts (USA) in 1986. It has undertaken hundreds of assignments related to energy infrastructure, industrial and energy efficiency, and clean energy projects for bilateral and multilateral development agencies. This task order’s purpose was to provide training, technical assistance, and capacity enhancement to the Ministry of Mines (“MoM”) of the Government of the Islamic Republic of Afghanistan and Da Afghanistan Beshna Sherkat (DABS) in support of all of the Sheberghan Gas Generation Activity (“SGGA”). AEA I’s contract is intended to contribute to this purpose.

The task order was issued effective December 21, 2011, and included an initial project completion date of June 20, 2013. The contract was initially funded at the level of \$31,780,600. The task order has been modified six times, extending the date of completion to July 31, 2016, and reducing the budget to \$30,440,956. Modifications that resulted in funding changes, adjustments to the period of performance, and/or changes in scope are summarized below:

Modification Number	Modification Date	Description of Change
1	September 26, 2012	1. Obligate \$8,306,668 in incremental funding or continued performance by the contractor through June 20, 2013.
2	November 14, 2012	1. Incorporate a revised statement of work to include technical changes; 2. Reduce the base period cost plus fixed fee (CPFF) to \$8,535,683 and increase the option period CPFF by \$7,196,041 consistent with the technical changes; 3. De-obligate \$1,339,642 from the current total obligated amount; and 4. Revise and update the task order clauses.
3	June 20, 2013	1. Exercise the option for continuity of service through December 20, 2014; 2. Reduce the based period fixed fee by \$162,827, representing the equitable adjustment for a deliverable not completed; 3. Increase the option period fixed fee by \$162,827, representing the equitable adjustment for additional deliverables carried over from the base period; 4. Incorporate a revised final budget for the entire task order; and 5. Incorporate the Participant Training AIDAR clause.
4	November 5, 2013	1. Provide incremental funding in the amount of \$10,800,000 to fund deliverables through September 2014; 2. Revise the Source and Nationality (S/N) requirements to permit goods and service from AID Geographic code 935; and 3. Add clause 752.7005, Submission requirements for Development Experience Documents (DEC).

Modification Number	Modification Date	Description of Change
5	September 21, 2014	<ol style="list-style-type: none"> 1. Extend the end date of the task order to December 20, 2014; and 2. Revise the Statement of Work and Deliverables to reflect technical changes and new focus.
6	March 30, 2015	<ol style="list-style-type: none"> 1. Extend the end date of the task order to July 31, 2016 to enable the contractor to complete all task order deliverables; and 2. Obligate \$7,673,932 to fully fund the task order.

AEAI's project objectives as outlined in contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002 are as follows:

1. Provide technical assistance, training, and capacity enhancement to the MoM for the development and effective utilization of Afghanistan's hydrocarbon reserves, including but not limited to the Sheberghan gas fields in Jowzjan Province in Northern Afghanistan;
2. Design and implement a comprehensive capacity building program for Afghan staff of the MoM and relevant institutions to support objective 1;
3. Assist MoM in procuring and implementing the construction and infrastructure activities necessary to identify, quantify, and develop gas fields, restore the power output of the Northern Fertilizer and Power Plant ("NFPP"), and related MoM initiatives;
4. Assist MoM to commercialize the Afghan Gas Company; and
5. Improve and consolidate the NFPP power operations with DABS, where possible, for operational efficiency.

Crowe's audit covered the period January 1, 2016 through July 31, 2016. During this period, AEAJ reported \$4,571,929 in incurred costs and fixed fee.

Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of AEAJ's contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002.

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 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 award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of AEAJ's internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether AEAJ complied, in all material respects, with the contract's 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 AEAI 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

The scope of the audit included the period January 1, 2016, through July 31, 2016. 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 Real Property Management;
- Procurement and Suspension and Debarment; and
- Reporting.

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; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by AEAI. 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 AEAI and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, reimbursement requests submitted by AEAI to the Government, procurements, reports, and government property items for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess AEAI’s compliance. Testing of indirect costs was limited to: 1) determining whether indirect costs were charged to the U.S. Government in accordance with the rate limitations established within the contract; 2) testing whether indirect costs charged to the contract were calculated in accordance with the provisions of the Negotiated Indirect Cost Rate Agreement (“NICRA”); and 3) determining whether AEAI adjusted any charges based on the provisional indirect cost rates incorporated within the NICRA following revision or finalization of the provisional rates.

Regarding Audit Objective 4, Crowe inquired of SIGAR, AEAI, and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and that required corrective action. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow-up. Two such reports were provided or otherwise obtained. The reports are identified below:

- Audit Report No. F-306-15-016-N dated February 20, 2015, issued by the USAID Office of the Inspector General (OIG) for the following: Contract No. 306-AID-306-TO-12-00002, Sheberghan Gas Generation Activity, for the Period December 21, 2011, to September 30, 2013; Contract No. 306-C-00-09-00528, Technical Support to Afghan Energy Information Center, for the Period September 15, 2009, to February 29, 2012 (Closeout Audit); and Contract No. 306-DOT-I-04-04-00022, Afghan Energy Capacity Building, for the Period March 7, 2008, to February 1, 2012 (Closeout Audit);
- Audit Report No. F-306-15-016-N issued by the USAID OIG: Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International (AEAI) for:
 - Contract No. AID-306-TO-12-00002, Sheberghan Gas Generation Activity, for the Period December 21, 2011 through September 30, 2013;
 - Contract No. 306-C-00-09-00528, Technical Support To Afghan Energy Information Center, for the Period September 15, 2009, through February 29, 2012 (Closeout Audit); and
 - Contract No. 306-DOT-I-04-04-00022, Afghan Energy Capacity Building, for the Period March 7, 2008, to February 1, 2012 (Closeout Audit).

There were a total of five findings in the two (2) audits related to procurement and allowable costs. Crowe performed procedures to determine if adequate corrective action was performed. The results of our procedures are noted in **Section II**.

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 reported four (4) instances of noncompliance, which are reported as Findings 2018-01, 2018-02, 2018-03, and 2018-04. As a result of the noncompliance, \$33,517 in questioned costs were reported. Questioned costs identified during the audit procedures have been classified as either ineligible or unsupported costs. SIGAR defines "ineligible costs" as those that are unreasonable, prohibited by the audited contract or applicable laws and regulations, or that are unrelated to the award. "Unsupported costs" are defined as those that are not supported with adequate documentation or did not have the required prior approvals or authorizations.

TABLE A summarizes the questioned costs identified throughout the course of the audit.

In addition, Crowe identified two material weaknesses and one significant deficiency in internal control. These items are reported as Findings 2018-01, 2018-02, and 2018-05.

Finally, Crowe conducted procedures to determine whether adequate corrective action was taken in response to five prior audit findings and recommendations. Of the five matters requiring follow-up, one was repeated. Therefore, Crowe concluded that AEAI took adequate corrective action on the other four matters that could have a direct and material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. The specific results of the follow-up procedures and the status of the findings are noted within **Section II**.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2018-01	Fixed Asset Register Components Not Included In Asset Inventory List	\$0	\$0
2018-02	Inadequately Supported Sole Source Justifications	\$23,400	\$23,400
2018-03	Incorrect Foreign Currency Translation	\$176	\$23,576
2018-04	Reconciliation Variances on the Special Purpose Financial Statement to Underlying Records	\$9,941	\$33,517
2018-05	Vouchers Missing Chief of Party Approval	\$0	\$33,517
Total Questioned Costs			\$33,517

Summary of Management Comments

Management concurred with the findings and recommendations except for finding 2018-02. With respect to finding 2018-02, management considered the costs incurred under the contract awarded to Creditable Construction Company to be reasonable based on a comparison to a previous contract. Management provided additional documentation in support of its position.

References to Appendices

The auditor's reports are supplemented by two appendices - **Appendix A** containing the Views of Responsible Officials, and **Appendix B** containing the auditor's rebuttal.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Chairperson and Senior Management of Advanced Engineering Associates International, Inc.
185 Alewife Brook Parkway, Suite 400
Cambridge, Massachusetts 02138-1107

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 Advanced Engineering Associates International, Inc. ("AEAI"), and related notes to the Statement, for the period January 1, 2016, through July 31, 2016, with respect to contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002.

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 contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002 ("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, the revenues earned, 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 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 AEAI in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002, 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 contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of AEAI, 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 January 3, 2019, on our consideration of AEAI'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 AEAI's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

January 3, 2019
Washington, D.C.

Advanced Engineering Associates International, Inc.
Special Purpose Financial Statement
Contract No.EPP-I-10-03-00004-00, Task Order No. AID-306-TO-12-00002
For the Period January 01, 2016, to July 31, 2016

	<i>For Base & Option Period 12/21/11- 07/31/16</i>		<i>For Option Period (AUDIT PERIOD) 01/01/16-07/31/16</i>		<u>Questioned Costs</u>		<u>Notes</u>
	<u>Budget</u>		<u>Actual</u>		<u>Ineligible</u>	<u>Unsupported</u>	
Revenues							
Contract No. EPP-1-10-03-00004-00 Task Order No. AID-306-TO-12-00002	\$	30,440,958	\$	4,571,929			4
Total Revenue	\$	30,440,958	\$	4,571,929			
Costs Incurred							
Direct Labor (including fringe)	\$	10,022,757	\$	1,213,645			5, 6
Other Direct Costs (ODCs)		8,992,677		824,752		\$ 9,941	C
Subcontract		6,356,155		1,845,007		\$ 23,400	A
Indirect Costs (includes overhead, G&A, Material OH)		<u>3,346,299</u>		<u>378,661</u>			
Total Costs Incurred	\$	28,717,888	\$	4,262,064	\$	176	B
Fixed Fee	\$	1,723,070	\$	309,864			
Balance	\$	<u>-</u>	\$	<u>-</u>			7

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

Advanced Engineering Associates International, Inc.
Notes to the Special Purpose Financial Statement
For the Period January 1, 2016 through July 31, 2016

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number AID-306-TO-12-00002 for the Sheberghan Gas Generation Activity for the period January 1, 2016 through July 31, 2016. Because the Statement presents only a selected portion of the operations of the AEAI, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of AEAI, Inc. 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 AEAI, Inc. 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 accrual basis and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in FAR Part 31.205 and AIDAR Part 731.2 as well as reasonableness, allocability, and term of contract, 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 were not required. Exchange rates may be used when recording costs but are all translated into U.S. Dollars for AEAI's accounting system.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which the Contractor is entitled to receive from the USAID for allowable, eligible costs incurred under the contract fixed fee during the period of performance.

Note 5. Revenue Recognition

Revenue was based on actual vouchers submitted to USAID based on actual cost for the entire option period.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved contract budget adopted as a component of the sixth modification to the contract dated March 30, 2015.

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. No variance, the ineligible items were not billed.

(Continued)

Note 8. Currency

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

Note 9. Program Status

The Sheberghan Gas Generation Activity project has been completed.

Note 10. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the January 1, 2016 through July 31, 2016, period covered by the Statement. Management has performed their analysis through January 3, 2019.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT¹

Note A. Finding 2018-02: Insufficient Sole Source Justification

Crowe questioned \$23,400 in unsupported costs for one subcontractor (Creditable Construction Company) due to inadequate documentation to support the reasonableness of costs for the sole source procurement.

Note B. Finding 2018-03: Incorrect Foreign Currency Translation

Crowe questioned \$176 in ineligible costs incurred due to overbilling the Government resulting from incorrect foreign currency conversions.

Note C. Finding 2018-04: Reconciliation Variances on the Special Purpose Financial Statement to Underlying Records

Crowe questioned \$9,941 in unsupported costs charged to the contract due to AEAI's inability to provide adequate supporting documentation to demonstrate that costs incurred and costs recorded to the project ledger were allowable and allocable.

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. For further details on each finding please see Section I – Schedule of Findings and Questioned Costs.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Chairperson and Senior Management of Advanced Engineering Associates International, Inc.
185 Alewife Brook Parkway, Suite 400
Cambridge, Massachusetts 02138-1107

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 Advanced Engineering Associates International, Inc. ("AEAI"), and related notes to the Statement, for the period January 1, 2016 through July 31, 2016, with respect to contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002. We have issued our report thereon dated January 3, 2019.

Internal Control over Financial Reporting

AEAI'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 control 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, 2016, through July 31, 2016, we considered AEAIs internal controls to determine the 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 AEAIs internal control. Accordingly, we do not express an opinion on the effectiveness of AEAIs 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 a significant deficiency.

(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 Finding 2018-01 and 2018-02 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 2018-05 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

AEAI's Response to the Findings

AEAI's response to the findings was 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 AEA, 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 LLP

Crowe LLP

January 3, 2019
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Chairperson and Senior Management of Advanced Engineering Associates International, Inc.
185 Alewife Brook Parkway, Suite 400
Cambridge, Massachusetts 02138-1107

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 Advanced Engineering Associates International, Inc. ("AEAI"), and related notes to the Statement, for the period January 1, 2016 through July 31, 2016, with respect to contract number EPP-I-00-03-00004-00, task order number AID-306-TO-12-00002. We have issued our report thereon dated January 3, 2019.

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 AEAI.

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 2018-01, 2018-02, 2018-03, and 2018-04 in the accompanying Schedule of Findings and Questioned Costs.

AEAI's Response to the Findings

AEAI's responses 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 AEAI's compliance. Accordingly, this communication is not suitable for any other purpose.

(Continued)

Restriction on Use

This report is intended for the information of AEAI, 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 LLP

Crowe LLP

January 3, 2019
Washington, D.C.

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Fixed Asset Register Components Not Included In Asset Inventory List

Material Weakness and Noncompliance

Condition: Crowe identified two instances of missing data elements in the Fixed Asset Register (Asset Inventory List). AEAI did not follow their policy and procedures for the following criteria required:

- Unit Acquisition Cost
- Acquisition date or date received

In addition to the missing Fixed Asset Register components within the Asset Inventory Listing, Crowe noted that property was not clearly identified as government furnished property (GFP) or contractor acquired property (CAP). The only information pertaining to this was a "remark" section that provided detail on the item's transfer year and its origin (i.e. another vendor).

Criteria: Per AEAI's Assets Management Policies and Procedures document, Section 4.10 which references USAID guidelines, the Fixed Assets Register must include:

- Description
- Unit Acquisition Cost
- Unit Fixed Asset Identification Number
- Serial #, model #, federal stock #, national stock #, or other identification #
- Source of equipment including K #
- Title vest location (recipient, fed gov't, other entity)
- Acquisition date or date received
- Location and condition of equipment and the date the information was reported
- Ultimate disposition data including date of disposal and sale price or the method used to determine current fair market value where a recipient compensates USAID for its share.

FAR 52-245-1(f)(1)(iii) Records of Government property. "The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions ..."

Questioned Costs: None.

Effect: This condition resulted in an incomplete Fixed Asset Register. An accurate reimbursement amount or acquisition method could not be determined without inclusion of key indicators such as acquisition cost or detailed records for each item that clearly indicated if an item was government furnished or contractor acquired. This increases the risk of inaccurate reimbursement amounts from the government and the risk of misappropriation of assets or wrongful disposition.

Cause: AEAI did not maintain records according to internal policies due to an insufficient review of their records.

Recommendation: Crowe recommends reviewing the Fixed Asset Register for completeness and revising the list to include all required information according to policy. In addition, AEAI should include information in the list that distinguishes CAP from GFP.

(Continued)

Finding 2018-02: Insufficient Sole Source Justification

Material Weakness and Noncompliance

Condition: We performed our testing on four of six procurements. Of those four procurements tested, one was awarded using sole source procedures without a required justification of the reasonableness of the costs. The original price quotation was \$24,900 (detailed below), and AEAI negotiated the final price to \$23,400. However, no documentation was provided for the basis of the negotiated price. The procurement was for an inspection of the job site due to the current contractor's inability to complete the inspection in a timely manner. Creditable Construction provided the following cost breakdown in their proposal:

<u>Experts</u>	<u>Daily Rate</u>	<u>Days</u>	<u>Total</u>
Saif R Qargha (Team Lead) US Citizen	\$1,200	7	\$8,400
Waheedullah Faiz (Estimation Expert) Afghan	\$400	10	\$,4000
Haroon Ahmad Halimzai (Environmental Expert) Afghan	\$500	15	\$7,500
Security	LS	1	\$1,500
Travel expenses	LS	1	\$3,500
	Total Firm Fixed Price		<u>\$24,900</u>

As required by their Procurement Manual, AEAI did not provide supporting documentation for the required review and evaluation of each element of cost to determine reasonableness, allocability, and allowability included in a cost or price analysis. In the absence of that documentation, the reasonableness of the price is in question.

Criteria:

According to FAR 31.201–2 *Determining Allowability*.

(a) A cost is allowable only when the cost complies with all of the following requirements:

(1) Reasonableness...

(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 that is inadequately supported.

In addition, FAR 31.201–3 *Determining Reasonableness* states that

(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business...

According to AEAI's Procurement Manual, "Some form of cost or price analysis must be made and documented in the AEAI Afghanistan Field Office's files in connection with every procurement action... In instances where detailed cost data is furnished by potential offerors, the Field Office Finance Manager will conduct and document a review and evaluation of each element of cost to determine reasonableness, allocability and allowability. Even though a Field Office may have obtained very reasonable prices for goods or services it has bought in the past, its obligation under this requirement does not stop at the time of purchase. The process leading up to the source selection decision must be fully documented as to:

- Type of instrument (e.g., contract)
- Type of contract (e.g., fixed price or cost-reimbursement) (See FAR Part 16)
- Fairness and reasonableness of the prices obtained
- Source selection justification.

Questioned Costs: \$23,400 in unsupported costs paid to Creditable Construction Company.

Effect: In the absence of competition and a completed cost or price analysis, the risk of unreasonable costs incurred by the vendor is increased. The Government may have reimbursed AEAI for an expense in excess of it qualifying as a reimbursable cost.

(Continued)

Cause: AEAI determined the urgency of the deliverable and approval from USAID to proceed was sufficient to justify the sole source.

Recommendation: Crowe recommends AEAI produce a cost and/or price analysis to justify the reasonableness of the incurred costs or otherwise reimburse the Government \$23,400.

Finding 2018-03: Incorrect Foreign Currency Translation

Deficiency and Noncompliance

Condition: During our testing of twenty-eight transactions, we identified four transactions that were translated from Afghanis to United States Dollars (USD). We identified one transaction for security services provided over a two-month period that resulted in an overbilling of \$176 that is in question. AEAI calculated the amount charged to USAID as \$38,917 using a translation rate of approximately 68.15 Afghanis to each United States Dollar (USD). Support for the translation rate was not provided. To test the accuracy of the incurred cost, we recalculated the amount charged using OANDA's² historical currency exchange rate for the period under review. The rate in effect at the time the costs were incurred was calculated to be \$38,741 using a translation rate of approximately 68.46 Afghanis to each USD. The difference between Crowe's calculation and AEAI's is \$176, which is questioned.

Criteria: Accounting Standards Codification Topic 830, *Foreign Currency Matters*, states, "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 Accounting Standards Codification Topic 830, *Foreign Currency Matters* defines "transaction date" as "[t]he 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)."

AEAI's policy states that, "AEAI's Field Offices will use (the) exchange rate at the time of conversion method for tracking conversions of U.S. dollars to local currency."

Questioned Costs: \$176 of ineligible costs, the amount overpaid by using the incorrect translation rate for the invoice.

Effect: The Government reimbursed AEAI for an expense in excess of this calculated reimbursable cost.

Cause: AEAI used an inaccurate currency translation rate for the transaction date.

Recommendation: Crowe recommends that AEAI reimburse the Government \$176 and perform a review of the foreign currency rate used for each translation calculation to confirm compliance with their policy.

² OANDA is a global leader for foreign exchange data that provides a historical currency conversion tool.

Finding 2018-04: Reconciliation of Variances on the Special Purpose Financial Statement to Underlying Records

Deficiency and Noncompliance

Condition: We compared the amounts reported on the special purpose financial statement to the underlying amounts recorded in the accounting system, specifically payment vouchers and the general ledger (GL) detail. During our comparison, we identified a difference where the amount listed on the SPFS was higher than found in the accounting records by \$9,941. Management was unable to provide a reconciliation to the difference.

Criteria: According to 48 CFR 31.201-2(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 that is inadequately supported."

Questioned Costs: \$9,941 of unsupported costs, which represents the unreconciled amount on the SPFS of expenditures in excess of the underlying financial records.

Effect: The variance between both the payment vouchers to the GL and the SPFS to the GL may result in a misstatement.

Cause: AEAI was unable to explain the variances and did not have procedures to reconcile the SPFS to underlying records.

Recommendation: Crowe recommends that AEAI Identify the source of the discrepancy between the payment vouchers and the GL detail and to implement procedures to reconcile detail transactions to financial statements. As the total amount reported on the SPFS is unsupported we recommend that AEAI reimburse the government for \$9,941.

Finding 2018-05: Vouchers Missing Chief of Party Approval

Significant Deficiency

Condition: AEAI did not provide the approval of the Chief of Party for two invoices as required by AEAI's policies and procedures. Crowe tested the invoice review and approval process by the President of AEAI, the Chief of Party of AEAI, and the USAID Project Management Office (PMO). Out of the sample of seven invoices reviewed by Crowe, two did not have an approval from AEAI's Chief of Party. We found that Vouchers numbered 49 and 50 included the review and approval signatures of both the assistant controller and the President of AEAI. However, AEAI was unable to provide the approval, usually through email, from the Chief of Party. AEAI's assistant controller discussed the review of the invoices with the USAID PMO Senior Engineering Officer and Project Manager, who stated that the invoices did not need to be reviewed according to the contract requirements, but the review had been performed as a check to reduce errors in accordance with AEAI's procedures.

Criteria: AEAI's Billing Procedures state, "It (the voucher) is forwarded to the Chief of Party for review. Once it is approved by the Chief of Party, for most contracts, it is forwarded to USAID..."³

Questioned Costs: None.

Effect: Without voucher review and approval from the Chief of Party, the amounts requested for reimbursement may be misstated.

Cause: AEAI did not formally document the Chief of Party's approval for the aforementioned invoices and did not have formal procedures in place for the approval process.

Recommendation: Crowe recommends that AEAI document the Chief of Party's approval for each voucher prior to its submission for payment and implement procedures for the approval process. In addition, AEAI should clearly indicate when a contract does not require the approval.

³ Crowe notes that correspondence with the USAID project management office indicated that review by the Chief of Party was not required by USAID for this task order.

SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Crowe identified two audit reports that included AEAI's contract within their scope that were pertinent to the auditee and that may be material to the Special Purpose Financial Statement or other financial data significant to the audit objectives, including the following:

- Report No. F-306-17-001-N: Financial Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International, Inc. (AEAI) under Sheberghan Gas Generation Activity (SGGA), Task Order No. AID-306-TO-12-00002, For the Period October 1, 2013, through December 31, 2015.
- Report No. F-306-15-016-N: Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International (AEAI) for:
 - Contract No. AID-306-TO-12-00002, Sheberghan Gas Generation Activity, for the Period December 21, 2011 through September 30, 2013;
 - Contract No. 306-C-00-09-00528, Technical Support To Afghan Energy Information Center, for the Period September 15, 2009, through February 29, 2012 (Closeout Audit); and
 - Contract no. 306-DOT-I-04-04-00022, Afghan Energy Capacity Building, for the Period March 7, 2008, to February 1, 2012 (Closeout Audit).

Upon review of the reports, five findings were noted that required follow-up on corrective actions. The prior audit findings have been reflected below with Crowe's conclusion on the corrective action taken by AEAI.

1. Prior Audit Finding 1: Business Class Travel Costs

Report: Report No. F-306-17-001-N: Financial Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International, Inc. (AEAI) under Sheberghan Gas Generation Activity (SGGA), Task Order No. AID-306-TO-12-00002, For the Period October 1, 2013, through December 31, 2015.

Issue: \$119,120 in questioned travel costs and \$10,595 in related indirect costs due to AEAI purchasing business class tickets instead of economy class.

Status: Crowe obtained AEAI's 'AEAI Expense Report Guidance For Completion' which detailed the specific policies regarding what class of airline accommodation is allowable, what the employee liability is if traveling by an indirect route, how to find different airlines that furnish the same service at different fares, what to do if a reservation must be changed or cancelled, and when/if first class or business class is allowable. During our testing of Allowable Costs, Crowe determined if costs incurred were authorized in writing and in advance by the contracting officer or Contracting Officer's Technical Representative. We did not identify any instances in which travel costs incurred were considered to be unreasonable. We determined that this finding is not repeated.

2. Prior Audit Finding 2: Lack of Full & Open Competition and Vetting

Report: Report No. F-306-17-001-N: Financial Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International, Inc. (AEAI) under Sheberghan Gas Generation Activity (SGGA), Task Order No. AID-306-TO-12-00002, For the Period October 1, 2013, through December 31, 2015.

Issue: Questioned cost of \$529,567 were noted because AEAI conducted certain procurements without complying with the requirements of FAR 44.2 "Consent to Subcontracts" and vetting requirements of USAID/Afghanistan Mission Order 201.06. The cost was also questioned because the evaluation memo was signed by a single individual rather than a committee, and in some instances AEAI did not provide evidence of complying with vetting procedures pursuant to section H.5 of the Task Order. For instance:

(Continued)

- \$43,287 in costs were questioned because AEAI did not comply with the vetting and tax withholding requirements;
- \$375,881 in costs were questioned because AEAI conducted certain procurements without complying with the full and open competition and vetting requirements
- \$34,202 in costs were questioned because AEAI did not comply with the competitive procurement procedures and vetting requirements; and
- \$76,205 in costs were questioned. Because AEAI did not comply with the competitive procurement procedures, followed unreasonable pricing, and repeatedly sole-sourced the lease of a vehicle without proper justifications.

Status: We discussed with AEAI the procedures followed during the procurement process. AEAI provided their Procurement Manual which detailed their process for “Obtaining Competition in Vendor Selection or Justifying Sole-Source Subcontracts. During our testing of AEAI’s Procurement process, Crowe identified a procurement sample item that had an insufficient sole-source justification (See Finding 2018-02). Therefore, this prior audit finding is repeated.

3. Prior Audit Finding 3: Lack of Compliance with Employment Contract

Report: Report No. F-306-17-001-N: Financial Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International, Inc. (AEAI) under Sheberghan Gas Generation Activity (SGGA), Task Order No. AID-306-TO-12-00002, For the Period October 1, 2013, through December 31, 2015.

Issue: The auditors questioned \$25,077 of unsupported costs related to six weeks of severance pay given to one Third Country National (TCN) employee in violation of section 5.5 of its Overseas Policy Manual.

Status: During our testing of Allowable Costs, Crowe tested labor charges against the following aspects of the contract:

- Labor charges paid did not include overtime or premium pay
- Post differential and danger pay allowances were calculated correctly.
- The key personnel were pre-approved by USAID.

During our testing we found no exceptions where AEAI was not in compliance with the contract employment requirements and determined that the finding is not repeated.

4. Prior Audit Finding 4: AISA Not Withheld for Taxation Purposes

Report: Report No. F-306-15-016-N: Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International (AEAI) for:

- Contract No. AID-306-TO-12-00002, Sheberghan Gas Generation Activity, for the Period December 21, 2011 through September 30, 2013;
- Contract No. 306-C-00-09-00528, Technical Support To Afghan Energy Information Center, for the Period September 15, 2009, through February 29, 2012 (Closeout Audit); and
- Contract no. 306-DOT-I-04-04-00022, Afghan Energy Capacity Building, for the Period March 7, 2008, to February 1, 2012 (Closeout Audit).

Issue: AEAI did not withhold any taxation on payments made to Afghan Suppliers prior to September 2012. In addition, from March 2012 onwards, no Afghanistan Investment Support Agency (AISA) licenses were obtained and filed with the supporting documentation.

Status: Through discussions with the AEAI Assistant Controller and confirmed through review of their reimbursement invoices, Crowe noted that AEAI was withholding taxation required on suppliers tested in our sample. During our testing of Allowable Costs, Crowe tested for vendor existence and AEAI provided the applicable AISA license for the Afghanistan vendors tested. We did not find any exceptions, therefore this finding is not repeated.

(Continued)

5. Prior Audit Finding 5: Compliance with the Contracts, and Laws and Regulations

Report: Report No. F-306-15-016-N: Audit of Costs Incurred in Afghanistan by Advanced Engineering Associates International (AEAI) for:

- Contract No. AID-306-TO-12-00002, Sheberghan Gas Generation Activity, for the Period December 21, 2011 through September 30, 2013;
- Contract No. 306-C-00-09-00528, Technical Support To Afghan Energy Information Center, for the Period September 15, 2009, through February 29, 2012 (Closeout Audit); and
- Contract no. 306-DOT-I-04-04-00022, Afghan Energy Capacity Building, for the Period March 7, 2008, to February 1, 2012 (Closeout Audit).

Issue: Compliance with the contracts and laws and regulations identified a number of instances of noncompliance for the AEIC, AECB and SGGA including:

- Excluded Party Testing was not completed on any transactions for procurements over \$5,000 (AEIC, AECB and SGGA); and
- The auditor questioned costs in the amount of \$7,934 for International travel was undertaken without approval.

Status: Through discussions with the AEAI Assistant Controller and review of AEAI's policies and procedures, Crowe noted that AEAI's procurement manual contains procedures included with the purpose to ensure the Mission order programs did not provide support to prohibited parties and require vetting of key individuals. Regarding the approval of international travel, please see the status of Prior Audit Finding 1 for the discussion of follow up performed. Crowe tested against compliance with contracts, laws, and regulations across all compliance areas and found no exceptions. This finding is not repeated.

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS

On January 3, 2019, AEAI provided the following responses to the audit findings appearing in the draft report:

Finding 2018-01: Fixed Asset Register Components Not Included in Asset Inventory List

AEAI accepts the recommendations and will incorporate them in future procedures and internal controls.

Finding 2018-02: Insufficient Sole Source Justification

In response to the original proposed audit finding, AEAI provided Crowe with a memorandum from the Chief of Party dated 13 August 2018 that described in detail the basis for the review of the costs at the time of award. Briefly stated, the cost review was based on unit costs submitted by Credible Construction in response to a 2014 international tender for road construction inspection. AEAI determined that the costs were reasonable based on the difference in complexity of the work required and the passage of two years. A copy of the 13 August 2018 memorandum is attached. (For clarification, the inability to perform required environmental inspections was that of the Afghan Ministry of Mines and Petroleum, not a contractor, under the required Environmental Management Plan. The Ministry was responsible as the owner of the property and the issuer (with USAID support) of the drilling contract to Turkish National Petroleum Corporation.

Finding 2018-03: Incorrect Foreign Currency Translation

In the interest of concluding the audit process, AEAI does not contest this specific finding. However, in order to make certain that the situation with foreign exchange transactions is clear, AEAI submits the following comment:

The transaction in question was processed directly through the project's local bank, Afghanistan International Bank (AIB), which acquired the local assets of AEAI's previous bank, Standard Chartered, in 2012. With limited choices for our international needs we elected to continue with AIB. The account was maintained in US dollars.

The transaction was executed by AIB after AEAI provided them the invoice amount and wire instructions. AIB processed the payment based on its posted foreign exchange rate. AEAI recorded the resulting amount for that payment. (See Sample 9, APPF.) AEAI did not establish the rate.

As stated in previous responses to Crowe, the bank-set exchange rate was the only reasonably available foreign exchange mechanism for AEAI. Given that (1) non-bank entities do not have access to the Afghanistan National Bank exchange facility; (2) AEAI would not be a large enough depositor at any Afghan bank to negotiate an exchange rate better than the rate generally offered by the bank, and (3) engaging directly in the currency markets would be both extremely burdensome and high risk, the bank rate offered was the nearest to market rate available. As a practical matter, the OANDA published rate, which reflects currency-trading markets, could not be achieved consistently in an actual field setting.

Finding 2018-04: Reconciliation of Variances on the Special Purpose Financial Statement to Underlying Records

AEAI does not contest this recommendation. AEAI will use all necessary procedures to assure that a similar situation does not recur.

Since payment for vouchers 57, 58, and 59 are still not received and totaling \$121,434.96, we recommend reducing payment of those by the \$9,941.00

(Continued)

Finding 2018-05: Vouchers Missing Chief of Party Approval

AEAI accepts the recommendation and will endeavor to avoid similar oversights occurring. However, during this period, Gopal Kadagathur-AEAI's President had signed the voucher for approval.

Section II – Summary Schedule of Prior Audit, Review, and Assessment Findings – Prior Audit Finding 2: Lack of Full & Open Competition and Vetting

With regard to Prior Audit Finding No. 2, AEAI notes that some seventy one percent of the original audit finding was found by the USAID Contracting Officer to be allowable costs. ("Notification for Management Decision" Belizaire, USAID, to Trodella, EAI, 20 September 2017).

APPENDIX B - AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us" or "auditor") has reviewed management's responses to the draft audit report provided on January 3, 2019. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with an audit finding. In those instances where management did not disagree with an audit finding, we have not included a rebuttal.

2018-02

Management disagreed with the finding and questioned costs. In response to the draft finding, management prepared a memorandum dated August 13, 2018 to detail the cost or price analysis conducted relative to the procurement that resulted in the selection of Creditable Construction Company. We reviewed the documentation provided by management and noted that the basis of comparison was a 2014 procurement pertaining to the "inspection and valuation of civil works done by TPAO for the oil field services contract." This work appears to be similar to the inspection services completed by Creditable Construction Company under the Sheberghan Gas Generation Activity ("SGGA") project. However, the scope appears to be broader than the work described for the SGGA project. The memorandum did not include schedule detail to understand the specific impact of the scope differences and how such differences may factor into the final pricing. Therefore, we have not modified the audit finding or questioned costs. We note, however, that the USAID Contracting Officer may review and determine that such documentation is sufficient after conducting additional technical review.

Finding 2018-03

We have reviewed management's response to the finding and noted that management did not provide new or alternative documentation to demonstrate that the exchange rate utilized to translate the incurred cost from Afghanis to United States Dollars represented the rate in effect at the time the cost was incurred. Therefore, the facts underlying the finding were unchanged and we have not modified the finding.

< Page Intentionally Left Blank >

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.

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

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