

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 19-26 Financial Audit

USAID's Women's Leadership Development Project in Afghanistan: Audit of Costs Incurred by ARD Inc.

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



MARCH
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 23, 2014, the U.S. Agency for International Development (USAID) awarded a \$41,959,377 cost-plus-fixed-fee task order to ARD Inc. (ARD) to implement the Women's Leadership Development (WLD) project under the Promoting Gender Equity in National Priority Programs (Promote). The intent of WLD is to enable Afghan women to apply advanced management and leadership skills in Afghanistan's public, private, and civil society sectors. The period of performance is from September 23, 2014, through September 22, 2019. USAID modified the task order eight times, but did not change its amount or period of performance.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$19,368,120 in expenditures and fixed fees charged to the task order from October 1, 2015, through September 30, 2017. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in ARD'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 ARD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ARD'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.

March 2019

USAID's Women's Leadership Development Project in Afghanistan: Audit of Costs Incurred by ARD Inc.

SIGAR 19-26-FA

WHAT THE AUDIT FOUND

Crowe identified one significant deficiency and one material weakness in ARD's internal controls, and one instance of noncompliance with the terms and conditions of the task order and applicable laws and regulations. Crowe found that ARD did not ensure that its grantees were audited in accordance with USAID requirements. In addition, Crowe found that ARD's documentation did not specify the amount of its grantees' cost share or indicate which costs were allocable to WLD, as USAID required. The auditors also found that ARD did not track its grantees' expenditures to see whether they exceeded \$300,000. USAID requires grantees that exceed that amount to conduct an external annual audit.

Because of these internal control deficiencies and instance of noncompliance, Crowe identified a total of \$338,061 in unsupported questioned costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Grants Under Contract	\$0	\$338,061	\$338,061
Total	\$0	\$338,061	\$338,061

Crowe reviewed one prior audit pertaining to ARD's task order and identified one finding. Because USAID had not issued a final determination regarding the finding, no corrective action was formally required. Therefore, Crowe conducted procedures to determine whether the finding was repeated during this current audit period and found that it was not.

Crowe issued a qualified opinion on ARD's SPFS based on the materiality of total questioned costs. Other than the impact of the questioned costs, Crowe concluded that the SPFS presents fairly, in all material respects, the revenues received, costs incurred, and balance for the period indicated.

WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$338,061 in questioned costs identified in the report.**
- Advise ARD to address the report's one internal control finding.**
- Advise ARD to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 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 ARD Inc. (ARD) under a U.S. Agency for International Development (USAID) task order to implement the Women's Leadership Development (WLD) project under the Promoting Gender Equity in National Priority Programs (Promote).¹ The intent of WLD is to enable Afghan women to apply advanced management and leadership skills in Afghanistan's public, private, and civil society sectors. Crowe reviewed \$19,368,120 in expenditures and fixed fees charged to the task order from October 1, 2015, through September 30, 2017. 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, \$338,061 in questioned costs identified in the report.**
- 2. Advise ARD to address the report's one internal control finding.**
- 3. Advise ARD to address the report's one noncompliance finding.**

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 ARD's Special Purpose Financial Statement. We also express no opinion on the effectiveness of ARD'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.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-134)

¹ The task order number is AID-306-I-TO-14-00031, under contract number AID-306-I-14-00010.



ARD, Inc.

Women's Leadership Development Project

Special Purpose Financial Statement

For the Period October 1, 2015 through September 30, 2017

(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

February 11, 2019

To the Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

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 audit of ARD, Inc.'s ("ARD") task order (AID-306-I-TO-14-00031) with the U.S. Agency for International Development funding the Women's Leadership Development project.

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, our report on internal control, and our report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of ARD and the Office of the Special Inspector General for Afghanistan Reconstruction, provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated into the final report.

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

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe LLP

Summary

Background

On September 23, 2014, the U.S. Agency for International Development (“USAID”) awarded Task Order No. AID-306-I-TO-14-00031 to ARD, Inc. (“ARD”).¹ The task order, which was structured as a cost-plus-fixed-fee completion-type arrangement, was valued at \$41,959,377 and was intended to fund the implementation of the Women’s Leadership Development (“WLD”) project. WLD was implemented as the fourth component under Promoting Gender Equity in National Priority Programs (“PROMOTE”), a joint commitment of the U.S. and Afghan governments, that focused on educating, promoting, and training Afghan women. ARD’s task order was issued under indefinite delivery indefinite quantity (“IDIQ”) Contract No. AID-306-I-14-00010, which provided overarching terms, conditions, and requirements to which ARD must comply while implementing the task order. As part of its implementation efforts, ARD directly executed project tasks, issued subcontracts to companies to provide various goods and services, and also issued grants to multiple recipients to help complete the project.

The task order’s period of performance spans 60 months, covering the period September 23, 2014, through September 22, 2019, the required delivery date. Subsequent to the initial award, the task order was modified eight times. Four modifications occurred during the audit period, which included incremental increases to the total obligation amount and a budget revision due to termination of subcontracts. The table below summarizes the modifications.

Modification No.	Date	Highlights
1	8/16/2016	Revised the project budget due to the termination of certain subcontracts and to increase labor required to offset subcontractor termination.
2	9/28/2016	Provided incremental funding in the amount of \$7,800,000.
3	1/9/2017	Named a new Contracting Officer Representative (COR).
4	4/4/2017	Provided incremental funding in the amount of \$4,471,452, increasing total obligated amount to \$28,271,452.
5	10/19/2017	Removed age limits for educational attainment levels for certain applicants, updated the COR’s information, and added incremental funding in the amount of \$4,567,206.
6	12/6/2017	Removed age limits for educational attainment for certain applicants involved with the primary and secondary target groups.
7	4/3/2018	Increased funding in the amount of \$5,810,512.
8	9/10/2018	Revised the project budget, replaced the Deputy Chief of Party (Finance and Administration) key personnel position with a Program Director position, and increased funding to \$41,959,377.

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 ARD’s project.

¹ ARD, Inc. is a subsidiary of Tetra Tech, Inc. and does business under the trade names of “Tetra Tech ARD,” “ARD, Inc.,” and “Associates in Rural Development.” Whereas the company is registered as ARD, Inc. with the Vermont Secretary of State, the contractor is formally referred to as ARD, Inc. within this report.

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 earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the task order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of ARD's internal control related to the task order, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether ARD complied, in all material respects, with the task order's requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the task order 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 ARD 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 October 1, 2015, through September 30, 2017. Within the period under audit, ARD reported \$19,368,120 in total revenue as having been earned, including [REDACTED] in reimbursable costs and [REDACTED] in fees. The audit was limited to those matters and procedures pertinent to the task order that have a direct and material effect on the Special Purpose Financial Statement ("SPFS"). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, 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 and Activities;
- Cash Management;
- Equipment and Property Management;
- Grants Under Contract;
- Procurement; 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 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 accounting principles generally accepted in the United States of America; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; 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 ARD during the period of performance. To the extent documented policies and procedures were unavailable, Crowe conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial 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 required that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the task order. Crowe identified – through review and evaluation of both the IDIQ contract and task order executed by and between ARD and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including, but not limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected transactions, invoices submitted to the Government for payment, procurements, property and equipment purchases and dispositions, grants under contract, and reports for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess ARD's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the Negotiated Indirect Cost Rate Agreement issued by the USAID. We also performed procedures to determine if adjustments to billings that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of ARD, USAID's staff participating in the audit entrance conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified one prior report applicable to ARD that contained a finding for which corrective action had not yet been evaluated by external auditors or the USAID Contracting Officer. Whereas a Contracting Officer's determination has not been rendered indicating that ARD is required to take corrective action, Crowe's procedures were limited to determining whether the same issue was identified during the Crowe's audit scope.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified two findings because they met one or more of the following criteria: (1) significant deficiencies in internal control; (2) material weaknesses in internal control; (3) noncompliance with rules, laws, regulations, or the terms and conditions of the task order; and/or (4) questioned costs resulting from identified instances of noncompliance.

Crowe issued a qualified opinion on the Special Purpose Financial Statement as a result of the audit's having identified questioned costs that, when extrapolated against the population of incurred costs, are deemed to be material.

Crowe also reported on both ARD's compliance with the applicable laws, rules, regulations, and the terms and conditions of the task order and the internal controls over financial reporting. Two findings were reported. The first finding was classified as a material weakness and instance of noncompliance, and the second was classified as a significant deficiency.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to ARD's financial performance under the task order. Based on Crowe's communications with ARD, there was one such prior audit. One finding was noted in the report. Whereas USAID had not yet issued a determination regarding the finding, corrective action was not yet formally required. Therefore, Crowe's procedures were limited to determining whether the same or similar condition existed during the current audit period.

Section 2: Summary Schedule of Prior Audit and Review Findings provides additional detail regarding the finding. Crowe's procedures did not result in identification of the same or similar noncompliance matter that was reported in the prior audit.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety. The summary includes questioned costs reported by

Crowe. Questioned costs identified during the audit procedures have been classified as either ineligible or unsupported costs on the Special Purpose Financial Statement. 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.

Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs
2018-01	Inadequate Monitoring and Support for Cost Share Transactions	Material Weakness and Noncompliance	\$338,061
2018-02	Lack of Formal Process to Ensure Grantees are Audited	Significant Deficiency	\$0
TOTAL:			\$338,061

Summary of Management Comments

Management disagreed with Finding 2018-01 because ARD’s IDIQ contract and task order did not expressly require cost sharing, and, in management’s opinion, the use of a fixed-amount award rendered the inclusion of cost-share amounts in the approved grant agreements unenforceable and non-binding. With regard to Finding 2018-02, ARD disagreed with Crowe’s conclusion that the company failed to implement a formal process to ensure grantees are audited. ARD’s position is based on its opinion that the audit requirement appearing in ADS 591 is not applicable to ARD’s grantees.

References to Appendices

The auditor’s reports are supplemented by two appendices, **Appendix A**, which contains management’s responses to the audit findings, and **Appendix B**, which contains the auditor’s rebuttal.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of ARD, Inc. ("ARD"), and related notes to the Statement, with respect to the Women's Leadership Development's project funded by Task Order No. AID-306-I-TO-14-00031 for the period October 1, 2015, through September 30, 2017.

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"). 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 qualified audit opinion.

(Continued)

Basis for Qualified Opinion

During the course of the audit, we identified known questioned costs of \$338,061 as a result of ARD's failure to obtain adequate documentation to support the allowability of cost share transactions and in-kind contributions associated with grants under contract issued by ARD. We estimated the total effect of the noncompliance by extrapolating the impact of the identified errors on the population of grants under contract payments reported on the Statement. Based on the extrapolation, the total effect of the noncompliance on the grants under contract costs is presumed to be material.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, 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 in Note 1 and on the basis of accounting described in Note 2.

Basis of Presentation and Accounting

We draw attention to Note 1 and Note 2 to the Statement, which describes the basis of presentation and accounting. The Statement was prepared by ARD 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 Task Order No. AID-306-TO-14-00031, 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 cooperative agreement referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated February 6, 2019, on our consideration of ARD'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 ARD's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

February 6, 2019
Washington, D.C.

ARD, Inc.
Special Purpose Financial Statement
AID-306-I-TO-14-00031
For the Period October 1, 2015, through September 30, 2017

			<u>Questioned Costs</u>		<u>Notes</u>
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
<i>Revenues</i>					
306-AID-306-I-TO-14-00031	\$ 41,959,377	\$ 19,368,120			4
Total Revenue	\$ 41,959,377	\$ 19,368,120			
<i>Costs Incurred</i>					
Direct Costs	\$ [REDACTED]	\$ [REDACTED]			5
Indirect Costs					
Fixed Fee [REDACTED]					11
Grants Under Contract				\$338,061	A
Grant Management Fee [REDACTED]					
Cost Plus Fixed Fee	\$ 41,959,377	\$ 19,368,120			
Balance	\$ -	\$ -			6

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

ARD, Inc.
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
For the Period October 1, 2015, through September 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order No. AID-306-TO-14-00031 for the Women's Leadership Development Project for the period October 1, 2015, through September 30, 2017. Because the Statement presents only a selected portion of the operations of the ARD, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of ARD, Inc. The information in the Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Task Order No. AID-306-I-TO-14-00031. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – BASIS OF ACCOUNTING

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the Code of Federal Regulations, 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 required. ARD translates costs denominated in a foreign currency to U.S. dollars using the spot rate on the date of each transaction.

NOTE 4 – REVENUES

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

NOTE 5 – COSTS INCURRED BY BUDGET CATEGORY

The budgeted costs contained in the Special Purpose Financial Statement reflect the budgeted values contained in the task order as issued on September 23, 2014.

NOTE 6 – 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. ARD reported a balance of \$0 for the period under audit.

NOTE 7 – CURRENCY

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

(Continued)

ARD, Inc.
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
For the Period October 1, 2015, through September 30, 2017

NOTE 8 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to the October 1, 2015, through September 30, 2017, period covered by the Statement. Management has performed their analysis through February 6, 2019. The analyses resulted in the following matters for disclosure:

1. Audit Response - Based on the Auditor's preliminary audit findings presented, ARD identified that grants issued in the Grants Under Contracts (GUC) program erroneously listed a cost-share amount that was not a requirement under the Federal Award. ARD verified in the IDIQ and associated task order that no cost-share requirements existed, but rather, certain elements of cost were to be provided as in-kind contributions at no-cost to the government. Tetra Tech collaborated with USAID and verified that no cost-share requirements existed.
2. Modification to grant agreements – ARD modified the grants in the GUC program and removed the errant reference to cost-share. Consistent with the Federal award requirements, any mention of cost-share and/or budgeted cost-share amounts was replaced with in-kind contributions at no-cost, or removed in its entirety. As of January 17, 2019, ARD has executed modified agreements with 19 of the 21 grantees eliminating the cost-share requirement.
3. Communication with Auditors - ARD communicated to Auditors the results of its review. Specifically, ARD informed Auditors that the Federal award did not include a cost-share requirement. Auditors responded that counterpart contributions are treated similarly to cost-share requirements from its audit perspective. ARD reiterated to Auditors that the Federal award did not contain any clause, mention or requirement for counterpart contributions, but rather, the award required that certain elements of cost be provided as in-kind contributions with no cost to the Government.
4. Afghanistan Site Visit - Following Auditor's audit fieldwork, ARD conducted a site visit to Afghanistan to review additional supporting documentation relating to GUC. ARD reviewed significant documentation that confirmed in-kind contributions for classrooms, equipment, and other required contractual items were provided as required.
5. Modification to the indefinite delivery indefinite quantity contract - USAID did revise Section H.39 via IDIQ Modification 03. USAID reserved Clause H.39, moved the GUC authority to H.41 and made the following changes:
 - a. Clarified grants to US institutions must be non-governmental organizations (Note: No direct impact to WLD)
 - b. Removed the \$500K ceiling for Fixed Obligation Grants (now called Fixed Amount Awards)
 - c. Removed the wording that the Task Order Contracting Officer Representative (TOCOR) can approve grants (Note: Grant approval was further delegated to the TOCOR via the approved grants manual)

ARD, Inc.
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE
SPECIAL PURPOSE FINANCIAL STATEMENT

A. Finding 2018-01 questioned \$338,061 due to ARD's failure to both monitor grantees' progress toward meeting cost share requirements and retain supporting documentation adequate to demonstrate that cost share requirements were met using allowable, eligible costs and in-kind contributions.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 ARD, Inc. ("ARD"), and related notes to the Statement, with respect to the Women's Leadership Development Project funded by Task Order No. AID-306-I-TO-14-00031 for the period October 1, 2015, through September 30, 2017. We have issued our report thereon dated February 6, 2019, within which we have qualified our opinion.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period October 1, 2015, through September 30, 2017, we considered ARD's 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 ARD's internal control. Accordingly, we do not express an opinion on the effectiveness of ARD's internal control.

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

(Continued)

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-01 to be a material weakness.

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 described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-02 to be a significant deficiency.

ARD, Inc.'s Response to the Findings

ARD'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 ARD, 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

February 6, 2019
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Chairperson and Senior Management of ARD, Inc.
159 Bank Street, Suite 300
Burlington, Vermont 05401

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 ARD, Inc. ("ARD"), and related notes to the Statement, with respect to the Women's Leadership Development Project funded by Task Order No. AID-306-I-TO-14-00031 for the period October 1, 2015, through September 30, 2017. We have issued our report thereon dated February 6, 2019, within which we have qualified our opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the task order is the responsibility of the management of ARD, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-01.

ARD, Inc.'s Response to the Finding

ARD's response to the finding was not subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

(Continued)

Restriction on Use

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

Crowe LLP

Crowe LLP

February 6, 2019
Washington, D.C.

FINDING 2018-01: INADEQUATE MONITORING AND SUPPORT FOR COST SHARE TRANSACTIONS

Material Weakness and Noncompliance

Criteria: Section H.39, *Grants Under Contracts*, of ARD's Indefinite Delivery Indefinite Quantity contract states that "Requirements which apply to USAID-executed grants shall also apply to grants signed by the Contractor."

Section 303.3.10, "Cost Share," of ADS 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*, states: "Cost share refers to the resources a recipient contributes to the total cost of an agreement. Cost share becomes a condition of an award when it is part of the approved award budget. The cost share must be verifiable from the recipient's records...for non-U.S. organizations it is subject to the Standard Provision, "Cost Share"; and can be audited. If a recipient does not meet its cost share requirement, the [Agreement Officer] may apply the difference in actual cost share amount from the agreed upon amount to reduce the amount of USAID funding for the following funding period, require the recipient to refund the difference to USAID when this award expires or is terminated, or reduce the amount of cost share required under the award."

USAID's *Standard Provisions for Non-U.S. Nongovernmental Organizations*, Section RAA.14, "Cost Share", states that the provision is applicable when the recipient provides a cost share. The requirement proceeds to state:

- b. The recipient's Cost Share under this award may include project costs incurred by the recipient from its own funds, or project costs financed with cash, services, or property contributed or donated to the recipient from other non-U.S. Government sources, including subrecipients. Not all Cost Share requires cash outlays by the recipient; examples are depreciation and use charges for buildings and equipment.
- c. The recipient's Cost Share contributions, both cash and in-kind, must meet all of the following criteria:
 - 1) Are verifiable from the recipient's records;
 - 2) Are not included as cost share contributions for any other U.S. Government (USG) – assisted program;
 - 3) Are necessary and reasonable for proper and efficient accomplishment of this award's objectives;
 - 4) Are allowable under the Standard Provision, "Allowable Costs";
 - 5) Are not paid by the USG under another grant or agreement (unless the grant or agreement is authorized to be used for Cost Share); and
 - 6) Are included in the approved budget.
- f. The recipient must provide supporting records for in-kind contributions from third parties.
 - 1) Volunteer services must be documented and, to the extent feasible, supported by the same methods used by the recipient for its employees.
 - 2) The basis for determining the valuation for personal services, material, equipment, buildings, and land must be documented.

ARD's Grants Manual states, "Grantees must account and report on cost share funding just as they would with Tetra Tech-funded portions of a project...Cost share is subject to audit and must be verifiable in the grantee's records."

Section 7.7 of ARD's Grants Manual states, "The WLD [Senior Grants Specialist], [Chief of Party], and Deputy Chief of Party – under guidance from the Tetra Tech home office Grants Specialist (GS) – are

responsible for ensuring that the grants program is in compliance with USAID regulations and the prime contract terms and conditions. Tetra Tech’s home office GS will periodically monitor the grants documentation, review for compliance, and apprise the field of [United States Government] regulation changes and updates.”

Condition: We selected five of 14 grants issued under the contract for testing of compliance with Grants Under Contract requirements; each grant selected was classified as a fixed obligation grant. ARD incorporated a cost share requirement in the approved budget for the grants, and the cost share is included in the approved grant agreement. Therefore, we requested documentation supporting the cost share from ARD. Per discussion with ARD, formal monitoring of the cost share through financial reporting or other such review of actual costs incurred for the cost share was not performed. ARD did, however, provide documentation to support its assertion that the cost share was met.

During our testing of the documentation provided by ARD, we noted instances of inadequate documentation to support that the cost share requirements were met and in compliance with USAID’s rules and regulations, including those pertaining to allowability. Specifically, we noted

- 1) Documentation did not include a schedule or other such financial records identifying each transaction contributing to the cost share and demonstrating that the cost share requirement was met.
- 2) No documentation was provided to support the valuation of in-kind contributions provided by grantee’s during project implementation;
- 3) Documentation did not specify the amount of the cost share and did not indicate which costs were allocable to the WLD project; and
- 4) Financial or other records were not provided to verify that costs were not counted toward cost share or Federal expenditures contained on other awards.

In the absence of documentation to adequately support management’s assertion that the cost share requirements were met and compliant with applicable USAID rules and regulations, the cost share is in question.

We did not identify any errors with respect to supporting documentation for the milestones paid with Federal funds. Therefore, the questioned cost amount of \$338,061 is limited to the proportion of the Federal payments associated with the inadequately supported cost share amount.

Grantee Name	Grant Number	WLD USG Funded (A)	Cost Share Required (B)	Cost Share / Total Grant Amount (C)	Questioned Cost Per Grant (A * C)
[REDACTED]	[REDACTED]	\$362,955.75	\$160,250.00	30.63%	\$111,173
[REDACTED]	[REDACTED]	\$79,104.85	\$23,719.65	23.07%	\$18,249
[REDACTED]	[REDACTED]	\$67,558.44	\$39,985.74	37.18%	\$25,118
[REDACTED]	[REDACTED]	\$230,983.46	\$372,500.00	61.72%	\$142,563
[REDACTED]	[REDACTED]	\$66,167.77	\$107,500.71	61.90%	\$40,958
TOTAL QUESTIONED COSTS:					\$338,061

Questioned Costs: \$338,061 of unsupported cost

Cause: Based on ARD's interpretation of the applicable regulatory guidance, the company did not believe that monitoring progress toward meeting the cost share was required for fixed obligation grants. In addition, ARD operated under an assumption that the cost share was met because certain contributions were required in order to meet the payment milestones.

Effect: The Government may have paid more in Federal payments than required as a result of grantees failing to comply with the terms of their agreements. Further, in the absence of formal monitoring of the cost share, ARD may fail to detect noncompliance with cost share requirements, be subject to findings for recovery, and the WLD program may not receive the expected benefit from the non-Federal participants.

Recommendation: We recommend that ARD:

1. Either produce a schedule of actual costs incurred and in-kind contributions that demonstrate that the cost share requirements were met and produce documentation in support of the cost share amounts reported on the aforementioned schedule;
2. Reimburse the Government \$338,061, if supporting documentation and financial records supporting the cost share cannot be provided; or
3. Modify existing grant agreements for this contract to require consistent and adequate reporting of the cost share and retain supporting documentation to demonstrate that the cost share requirements were met.

FINDING 2018-02: FAILURE TO ENSURE THAT GRANTEES WERE AUDITED IN ACCORDANCE WITH USAID REQUIREMENTS

Significant Deficiency

Criteria: ARD's Grants Manual states, "Pursuant to the Standard Provision for Non-US Organizations Accounting, Audit, and Records (June 2012), if the grantee expends *more* than \$300,000 in grants in a fiscal year, the grantee shall conduct an external annual audit, the cost of which may be paid from the grant."

ADS 591 states, "[P]rime recipients must ensure that foreign nonprofit subrecipients adhere to the ADS 303mab, USAID Standard Provisions for Non-U.S. Nongovernmental Grantees."

Section H.39, *Grants Under Contracts*, of ARD's Indefinite Delivery Indefinite Quantity contract states that "Requirements which apply to USAID-executed grants shall also apply to grants signed by the Contractor."

Section H.39 continues to state:

The Contractor shall comply with all USAID policies, procedures, regulations, and provisions set forth in the Contract and ensure:

1. Sufficient time to complete grantee audits;
2. Sufficient time for the grantee to submit a final report to the Contractor; and
3. Sufficient time for the Contractor to complete its review of the grantee and provide a final report to the government before Contract or Task Order close-out.

Section 591.3, "Policy Directives and Required Procedures," of ADS 591, *Financial Audits of USAID Contractors, Recipients, and Host Government Entities*, states:

U.S.-based non-governmental organizations and foreign organizations receiving USAID awards directly or through a prime contractor or recipient to be audited in accordance with 2 CFR Part 200, Subpart F, the USAID Financial Audit Guidelines, and the *Standard Provisions for Non-U.S. Nongovernmental Organizations*.

Condition: ARD did not ascertain whether its grantees exceeded the applicable threshold requiring an audit based on total USAID expenditures for each grantee's fiscal year. ARD conducted its analysis based on the specific type of grants issued by ARD (i.e., fixed obligation grants) rather than each grantee's total USAID expenditures during their fiscal year.

Questioned Costs: None

Cause: ARD presumed that, because fixed obligation grants were not subject to audit, ARD was not responsible for monitoring grantee compliance with the audit requirement. Therefore, ARD did not develop a process to determine if audit requirements were necessary of its grantees.

Effect: ARD may be unaware of internal control and noncompliance issues that could potentially impact its grantees and the WLD financial records, including but not limited to issues pertaining to cost share, programmatic and financial reporting, and the accuracy and completeness of financial data utilized to support the reasonableness of fixed prices included in grant proposals. Further, in the absence of a process to ensure that grantees were audited, ARD may inadvertently fail to provide sufficient time for grantee audits to be completed and for audit adjustments to be made prior to submission of the final report.

Recommendation: We recommend that ARD develop and implement a process to obtain a certification or other documentation from each grantee regarding its actual costs incurred under USAID awards subject to audit during each grantee's fiscal year.

Crowe reviewed one prior report pertaining to an audit of ARD – an audit of ARD’s Special Purpose Financial Statement pertaining to the Initiative to Strengthen Local Administrations (ISLA) Project for the period October 1, 2016, through September 30, 2017 – that included a finding that may be direct and material to the Special Purpose Financial Statement or other financial information significant to the audit objectives related to ARD’s administration of the WLD program. Whereas USAID had not issued a final determination regarding the finding, corrective action was not yet formally required. Therefore, Crowe conducted procedures to determine if the same or similar matter was detected during Crowe’s audit period. We have summarized the results of our procedures below.

FINDING NO. 2018-01: CASH PAYMENT NOT MADE WITHIN 30 DAYS OF INVOICE TO USAID

Report: Audit of ARD’s Special Purpose Financial Statement pertaining to the Initiative to Strengthen Local Administrations (ISLA) Project for the period October 1, 2016, through September 30, 2017

Issue: During testing of 25 expenditure items for compliance with FAR 52.216-7, the auditor reported that one payment was made to a subcontractor eight days later than allowed by the aforementioned regulation.

Status: We conducted testing of 40 transactions submitted to USAID for reimbursement that totaled \$3,281,751. We compared the payment date of each transaction to the date of the corresponding reimbursement request submitted to USAID and noted that, in each scenario, ARD complied with the provisions of FAR 52.216-7. This matter was, therefore, not repeated. Pending issuance of a final determination on the audit of the ISLA Project identifying whether or not corrective action was required to be taken, Crowe did not test ARD’s corrective action relative to the prior audit report.

APPENDIX A:
VIEWS OF RESPONSIBLE OFFICIALS

February 6, 2019

Bert Nuehring
Partner
Crowe LLP

Reference: a) ERussell/BStanley, Draft Audit Report, dated November 8, 2018

Subject: Tetra Tech ARD Management Response pertaining to referenced draft audit report for the Women's Leadership Development Project, Task Order No. AID-306-I-TO-14-00031

Dear Mr. Nuehring,

Thank you for the opportunity to provide this Management Response for the subject Audit Report. For the reasons set forth below, Tetra Tech ARD respectfully disagrees with both of Crowe's findings.

The first Audit Report finding questions approximately \$338,061 due to "Inadequate Monitoring and Support for *Cost Share Transactions*." Crowe believes that ARD was obligated to – and failed to – quantify and track subgrantee contributions as quantified "cost share." This is incorrect.

- Contract No. AID-306-I-14-00010 (the Contract) and Task Order (TO) AID-306-I-TO-14-00031 (the TO) contain no requirement for a quantified cost share as a condition for the subgrants. Rather, they require only that the subgrantees contribute use of their training venues at "no cost." ARD met this requirement, and Crowe does not dispute this fact.
- Contrary to Crowe's finding, USAID's internal Operational Policies do not override the Contract and TO to require quantified cost share contributions for its subgrants. Furthermore, USAID approved ARD's use of Fixed Amount Awards that, according to other USAID Operational Policies, do not require quantifying actual costs incurred by subgrantees.
- Language found in ARD's Grants Manual and subgrants (which ARD later corrected) does not change the fact that the Contract and TO require only "no cost" contributions and not quantified cost share.

It is important to note that USAID did not require ARD to impose quantifiable contributions on its subgrantees, ARD properly met its obligations with regard to subgrant contributions. And in any event, USAID suffered no loss from the lack of quantified cost share obligations. USAID should reject this finding.

The second Audit Report’s finding – that ARD failed to ensure that subgrantees received annual audits – is also mistaken. USAID’s Operational Policies make clear that such audit requirements do not apply to Fixed Amount Awards, as ARD used here.

1. Audit Report Finding 2018-01: Inadequate Monitoring and Support for Cost Share Transactions

Crowe’s first finding erroneously seeks to apply a quantified cost share obligation as a condition to the subgrant awards, but the fact is that USAID required only a “no cost” contribution from subgrantees.

- a. USAID’s Contract and TO do not – and never have– contained a quantified cost-share requirement as a condition for the subgrants, but only an unquantified, “no cost” contribution of training venues.**

As the Audit Report notes, USAID awarded the Contract and TO to ARD to fund the implementation of the Women’s Leadership Development (“WLD”) project. Both documents anticipated ARD awarding subgrants. See Contract Section C.9.6; TO section C.11.7. Additionally, Contract section C.9.6 stated that any such subgrants “may involve . . . a grantee contribution.” However, Contract section H.39, which contains the requirements that apply to any grants awarded by ARD under the contract, contains no requirement that ARD include a quantified cost-share contribution as a condition for awarding a subgrant. Nor does the TO contain any such requirement.

To the contrary, the Contract only requires ARD to secure one type of contribution from the subgrantees: “The use of training venues shall be viewed as an in-kind contribution of the sponsoring institutions or organizations, with no costs expected for rental of the venues.” See TO section C.10.2. This provision does not require any cost quantification whatsoever related to the subgrantee contribution; it merely requires subgrantees to provide the training venue at “no cost.” ARD obtained photographs and other documentary evidence from the subgrantees demonstrating that they met this contribution requirement.

- b. USAID’s Operational Policies do not require ARD to impose a quantified cost share requirement in its subgrants and, to the contrary, specifically provide for Fixed Amount Awards with no cost accounting requirements.**

Crowe asserts that two of USAID’s Operational Policies – *Grants and Cooperative Agreements to Non-Governmental Organizations* (ADS 303) and *Standard Provisions for Non-U.S. Nongovernmental Organizations, A Mandatory Reference for ADS Chapter 303* (ADS 303mab) – must be read together to mandate treating any subgrantee contribution as quantified cost share. This is incorrect for two reasons.

First, Crowe supports its position with the following sentence from Section 303.3.10 of ADS 303: “Cost share becomes a condition of an award when it is part of the approved award budget.” Crowe claims that this language mandates that any reference to a contribution in any budget is automatically treated as a quantified cost share that is a binding requirement of the award. But this sentence does not say that, nor does Crowe’s interpretation of it fit the facts at hand. ARD’s mere submission of subgrantee budgets that quantified the costs of their donated training venues – which the Contract said should be provided at “no cost” – does not transform those budget items into contractually-binding, quantified cost share obligations simply because of ADS 303 Section 303.3.10.

Second, Crowe cites ADS 303mab provision RAA 14, Cost Share (2012) as addressing how ARD would substantiate any quantified cost share. But this assumes that there is a requirement for a quantified cost share in the first place. RAA 14 does not create such a requirement.

Perhaps more on point here is USAID's *Fixed Amount Awards to Non-Governmental Organizations, An Additional Help Document for ADS Chapter 303* (ADS 303saj). That guidance addresses the use of Fixed Amount Awards to "non-U.S. NGOs with limited or no previous USAID experience." ADS 303saj speaks to using budgets only to establish fixed payment amounts to be paid based on achieving milestones, and states that "what the recipient actually spends to complete the milestone is irrelevant." See ADS 303saj at 7-8. That is precisely what occurred here: ARD obtained subgrant budgets that included cost estimates in order to award the subgrants as Fixed Award Amounts. And then ARD also ensured that the subgrants contributed the training venues as promised.

In sum, there is no basis in USAID's Operational Policies for requiring ARD to impose quantified cost share on its subgrantees or to track the actual costs incurred for these contributions. To the contrary, ARD's use of the Fixed Award Amounts complied with ADS 303saj and was approved by USAID.

c. The language in ARD's Grants Manual and subgrants does not change the fact that the Contract and TO require only "no cost" contributions and not quantified cost share.

Crowe asserts that ARD's own documents create a quantified cost share obligation, even if the Contract and TO require only "no cost" contributions. These positions are incorrect, as well.

First, Crowe suggests that section 7.7 of ARD's Grants Manual – which states "Cost share is subject to audit and must be verifiable in the grantee's records" – means that any subgrantee contribution must be treated as quantified cost share. But ARD never intended this language to have such an effect. ARD only intended that, if there is a genuine, quantified cost share requirement, then it must be verified in the grantee's records. This language is inapplicable in this circumstance because the Contract and TO require only "no cost" contributions, not quantified cost share.

Second, Crowe points out that ARD used the label "cost share" in the subgrant budgets and subgrant agreements, and claims that this demonstrates that ARD was obliged to treat the subgrantee contributions as quantified cost share. Yet ARD has explained that it erroneously inserted this cost share language and subsequently corrected the mistake to reflect the fact that that the Contract and TO only require "no cost" contributions of training venues.

d. The Audit Report erroneously concludes that the lack of quantified cost share may have caused the Government to overpay. There is no basis for this whatsoever.

The Audit Report cites ADS 303 for the proposition that:

If a recipient does not meet its cost share requirement, the AO may apply the difference in actual cost share amount from the agreed upon amount to reduce the amount of USAID funding for the following funding period, require the recipient to refund the difference to USAID when this award expires or is terminated, or reduce the amount of cost share required under the award.

Crowe claims that, since ARD did not treat the subgrantees' contributions as quantified cost share and verify actual costs incurred, "[t]he Government may have paid more in Federal payments than required as a result of grantees failing to comply with the terms of their agreements...and the WLD program may not receive the expected benefit from the non-Federal participants." Based on this position, Crowe recommends that USAID should require ARD to reimburse the Government \$336,061 "if supporting documentation and financial records supporting the cost share cannot be provided."

Crowe's position and recommendation are incorrect. As demonstrated above, the Contract and TO do not contain any requirement for quantified cost share, but rather only for "no cost" contributions of training venues. ARD met its contractual obligations by verifying that the subgrantees provided the training venues at "no cost." There should be no disallowance on this basis.

The fact is that both ARD and USAID believe "no cost" contributions are permissible and do not need to be tracked on a cost-type basis. Therefore, as Crowe's recommended disallowance has no legitimate basis, the proper result would be for USAID to exercise its authority, pursuant to *ADS 303.3.10*, to eliminate the cost-share requirement entirely.

2. Audit Finding 2018-02, Failure to Ensure that Grantees were Audited in accordance with USAID Requirements

The Audit Report's second finding faults ARD for not ascertaining whether its subgrantees exceeded the applicable threshold for requiring a foreign recipient audit in accordance with Section 591.3 of ADS 591, *Financial Audits of USAID Contractors, Recipients, and Host Government Entities*. ARD disagrees with this finding, as well. ARD awarded only Fixed Amount Awards for this program, and both ADS 591.3.2.1g and USAID's *Mandatory Standard Provision for Non-US NGOs* exclude such awards from the annual audit requirements. Accordingly, ARD was not required either to ensure the subgrantees obtained annual audits or to determine whether they exceeded the audit threshold assessments. Rather, such an obligation exists for *other* prime contractors awarding cost-type grants to these awardees.

* * *

In summary, USAID did not require ARD to impose quantified contributions on its subgrantees, and ARD properly met its obligations with regard to "no cost" subgrantee contributions. ARD also had no obligation to ensure that subgrantees received annual audits given the fixed nature of the grants. USAID should reject Crowe's findings in their entirety.

Please do not hesitate to contact me at [REDACTED] or [REDACTED] should you have any questions.

Regards,

[REDACTED]
[REDACTED]

Tetra Tech

APPENDIX B:
AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us") has reviewed ARD's response to the draft audit report findings submitted on February 6, 2019. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by ARD. A rebuttal has been prepared where management disagreed with the facts presented within the condition or otherwise did not concur with Crowe's recommendations. ARD disagreed with both findings included in the report, Findings 2018-01 and 2018-02. Crowe's rebuttal to ARD's response is below. Following the review of management's responses, Crowe did not consider it necessary to revise either audit finding.

FINDING 2018-01: INADEQUATE MONITORING AND SUPPORT FOR COST SHARE TRANSACTIONS

We have reviewed management's response related to the finding, which stated that ARD did not conduct adequate monitoring over grantees' cost share transactions and failed to retain adequate supporting documentation for the aforementioned transactions. In summary, ARD contends that the criteria are not applicable as the cost share requirement placed on subgrantees was non-monetary in nature. However, the criteria, as presented in the audit finding, specifically apply to this situation; the criteria pertain to the required supporting documentation for grantees' non-monetary contributions used to meet cost share requirements. Furthermore, we noted that ARD did not provide additional or alternative supporting documentation to support grantees' actual cost share amounts. ARD also did not provide evidence that the contract requirements and USAID requirements asserted as *criteria* had changed. As a result, we concluded that ARD's response was unsupported by the applicable USAID requirements and, therefore, the finding is unchanged.

Note: ARD's response utilized the terms "subgrantee" and "subgrant" throughout its response. Crowe has repeated the use of these terms when directly referencing ARD's argument. However, Crowe's finding does not question subgrants or subgrantee costs. Rather, Crowe's finding questions costs associated with grantees who received awards as part of the Grants Under Contract program. A subgrantee, by definition, is a recipient of a grant from a grant recipient. Whereas ARD did not receive a grant, but rather a contract, first tier entities receiving grants under ARD's contract should appropriately be considered "grantees."

We discuss, in the following sections, ARD's position and our response in detail. To assist in mapping the replies below to ARD's original management response appearing in Appendix A, we have included ARD's sub-headers in bold font. Crowe's responses immediately follow.

ARD's response:

a. USAID's Contract and TO do not – and never have– contained a quantified cost-share requirement as a condition for the subgrants, but only an unquantified, "no cost" contribution of training venues.

ARD argues that the contract and related task order between ARD and USAID does not contain a monetized cost share requirement, but rather only an in-kind contribution. As stated ARD's response to the finding, the contract between ARD and USAID requires the use of training facilities as an in-kind contribution with no cost for the use of these facilities. This statement defines the nature of the cost share, which would take the form of an in-kind contribution (i.e., a contribution with no cost to the Federal program).

As noted within the *criteria* asserted in the finding, ARD elected to include a cost share requirement within its grant agreements. Pursuant to ADS 303.3.10, "Cost share becomes a condition of an award when it is part of the approved award budget." Whereas Section H.39 of ARD's indefinite delivery indefinite quantity (IDIQ) contract states that requirements which apply to USAID-executed grants shall also apply to grants signed by ARD, the ADS 303.3.10 requirement applies to ARD's grantees. Accordingly, cost-sharing

(Continued)

requirements are applicable to grants issued by ARD under the contract regardless of the presence of a quantified cost-share requirement in ARD's IDIQ contract or task order.

b. USAID's Operational Policies do not require ARD to impose a quantified cost share requirement in its subgrants and, to the contrary, specifically provide for Fixed Amount Awards with no cost accounting requirements.

Crowe concurs that ARD was not mandated to include quantifiable cost share requirements on its grantees; however, ARD elected to do so and formally incorporated those requirements into grantees' approved budgets. As noted above, due to ARD's having included quantifiable cost share amounts in its approved grant award budgets, ARD's grantees are required to comply with the cost share requirements applicable to USAID's direct award recipients.

USAID's *Standard Provisions for Non-U.S. Nongovernmental Organizations*, Section RAA.14, notes that cost share can include items that do not include cash outlays such as donated services, contributed or donated property, and usage fees for buildings and equipment. Such items are referred to as in-kind contributions, which represent the cost share type referenced by ARD within its response to the finding. Consistent with USAID's requirements, the cost share amounts incorporated into the approved budgets are a condition of the award, must be valued to ensure that each grantee has met the budgeted and approved cost share requirement, must be tracked within the recipient's records, and must be adequately supported.

Last, ARD referenced that USAID's Operational Policies specifically provide for fixed amount awards with no cost accounting requirements. ARD is correct that fixed amount awards without cost accounting requirements are provided for in USAID's rules; this is not challenged within the finding. It is, however, irrelevant as:

1. ARD incorporated a cost share requirement in its approved grant budgets, which triggered the requirement that actual costs attributable to the cost share must be accounted for; and
2. Use of a fixed amount award is only appropriate in those instances where there is not a mandatory cost share requirement included in a grant, as per 2 CFR Part 200.201 as referenced in ADS 303.3.25. Therefore, the nature of the grant agreement effectively changed due to ARD's action.

c. The language in ARD's Grants Manual and subgrants does not change the fact that the Contract and TO require only "no cost" contributions and not quantified cost share.

ARD contends that ARD's own grants manual does not create a quantifiable cost share obligation. Crowe agrees with this statement; however, the statement does not invalidate or otherwise waive the applicable USAID cost sharing requirements. Further, ARD's grants manual defines what steps are to be taken when a cost share has been established. The grant manual notes the cost share must be able to be audited and must be verifiable. ARD did not verify the in-kind cost share valuation as required by the grant manual.

d. The Audit Report erroneously concludes that the lack of quantified cost share may have caused the Government to overpay. There is no basis for this whatsoever.

ARD asserts that, since neither ARD's IDIQ nor its task order include a requirement for a quantified cost share, questioned costs are inappropriate. ARD's position is incorrect. As previously stated and supported by ADS 303, ARD incorporated quantifiable cost share requirements in its grant agreements, which therefore became conditions of the grant awards and were subject to USAID's cost share requirements. Failure to comply with the requirements of the grant agreements and ARD's having passed through the costs associated with noncompliant grantees represents appropriate grounds for questioning the applicable costs and also presents an obligation for the auditor to do so.

FINDING 2018-02: FAILURE TO ENSURE THAT GRANTEES WERE AUDITED IN ACCORDANCE WITH USAID REQUIREMENTS

ARD, within its response, contends that the finding is irrelevant under ADS 591.3 due to subgrants under the program having been structured as fixed amount awards (FAAs) and therefore being exempt from audit. ARD's statement that the fixed amount awards are not subject to audit is correct; however, it is irrelevant, as the finding does not assert that the specific fixed amount awards were required to be audited. Further, our finding does not address subgrants, but rather the finding addresses those grants issued by ARD to first tier entities (i.e., recipients of grants under ARD's contract).

The finding states that ARD failed to implement a process to ascertain whether its grantees were subject to audit based on the expenditure of greater than \$300,000 in USAID funds within the grantee's fiscal year. ADS 591 does not state that the audit requirement is based on a single award or only on those awards made to a grantee by a single funder – in this case, ARD. ARD's contract requires that the company provide sufficient time for grantees to complete audits. ARD did not provide information demonstrating that it has a process in place to ensure compliance with the contract requirement and to otherwise ascertain whether each grantee triggered the USAID audit requirement across all of its cost-type awards.

Whereas ARD did not provide any new, additional or valid information to necessitate modification of the finding, the finding remains unchanged.

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