

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 23-32 Financial Audit

USAID's Afghan Children Read Program: Audit of Costs Incurred by Creative Associates International Inc.

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



SEPTEMBER
2023

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 6, 2016, the U.S. Agency for International Development (USAID) Mission to Afghanistan awarded a 5-year, \$69,547,810 cost-plus-fixed-fee task order to Creative Associates International Inc. (Creative) in support of its Afghans Read Program. The program's goal was to build the capacity at Afghanistan's Ministry of Education to develop and implement a nationwide, evidence-based, early grade reading curriculum and instruction program in formal and community-based education classrooms. USAID modified the task order seven times; for example, it changed the name of the program from Afghans Read to Afghan Children Read. However, the modifications did not change the total award amount or the period of performance.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$19,444,117 in costs charged to the task order from October 1, 2019, through April 5, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Creative'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 Creative has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Creative's Special Purpose Financial Statement (SPFS). See Davis Farr's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Davis Farr did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

September 2023

USAID's Afghan Children Read program: Audit of Costs Incurred by Creative Associates International Inc.

SIGAR 23-32-FA

WHAT SIGAR FOUND

Davis Farr identified two material weaknesses and one significant deficiency in Creative's internal controls. The auditors also identified three instances of noncompliance with the terms of the task order. For example, Davis Farr found that Creative did not provide documentation such as timesheets, proof of payment, vendor invoices, exclusion checks, and procurement documentation to support 35 of 186 tested subcontractor transactions. In another example, the auditors found that Creative exceeded the maximum communication cost allowance for 10 of 58 transactions. SIGAR notified Creative of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Davis Farr identified \$67,382 in total questioned costs, consisting of \$2,372 in ineligible costs—costs prohibited by the task order and applicable laws and regulations—and \$65,010 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$1,993	\$54,630	\$56,623
Indirect Costs	\$379	\$10,380	\$10,759
Total Costs	\$2,372	\$65,010	\$67,382

Davis Farr identified five prior audit reports that were relevant to Creative's task order. One report contained three findings that could have had a material effect on the SPFS. Davis Farr conducted follow-up procedures and concluded that Creative took adequate corrective action on two findings. One finding was repeated under this audit.

Davis Farr issued an unmodified opinion on Creative's SPFS, noting it presents fairly, in all material respects, revenues received, and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$67,382 in questioned costs identified in the report.
2. Advise Creative to address the report's three internal control findings.
3. Advise Creative to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 18, 2023

The Honorable Samantha Power
Administrator, U.S. Agency for International Development

Mr. Joel Sandefur
Mission Director, U.S. Agency for International Development

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by Creative Associates International Inc. (Creative) under a cost-plus fixed-fee task order from the U.S. Agency for International Development (USAID) Mission to Afghanistan to support the Afghan Children Read Program.¹ The program's goal was to build the capacity at Afghanistan's Ministry of Education to develop and implement a nationwide, evidence-based, early grade reading curriculum and instruction program in formal and community-based education classrooms. Davis Farr reviewed \$19,444,117 in costs charged to the task order from October 1, 2019, through April 5, 2021. Our contract with Davis Farr 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 the audit, SIGAR recommends that the responsible agreement officer at USAID:

1. Determine the allowability of and recover, as appropriate, \$67,382 in questioned costs identified in the report.
2. Advise Creative to address the report's three internal control findings.
3. Advise Creative to address the report's three noncompliance findings.

Davis Farr discusses the results of the audit in detail in the attached report. We reviewed Davis Farr's report and related documentation. We also inquired about Davis Farr's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 Creative's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Davis Farr is responsible for the attached auditor's report, dated August 25, 2023, and the conclusions expressed therein. However, our review disclosed no instances in which Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-247)

¹ The task order number is AID-306-TO-16-00003.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

For the period October 1, 2019 through April 5, 2021

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

For the period October 1, 2019 through April 5, 2021

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August 29, 2023

Enclosed is the final report on the audit of the Special Purpose Financial Statement of Creative Associates International Inc. (Creative) under United States Agency for International Development (USAID) Task Order No. AID-306-TO-16-00003 to support the Afghan Children Read Program. The audit covers the period October 1, 2019, through April 5, 2021.

Included within the final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from Creative, the Special Inspector General for Afghanistan Reconstruction and USAID. Management of Creative has prepared a response to the findings identified during our audit and that response is included as part of this report. The response has not been audited and we express no opinion on it.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

For the period October 1, 2019 through April 5, 2021

Background

On April 6, 2016, the United States Agency for International Development's (USAID's) Mission to Afghanistan awarded a five-year \$69,547,810 cost-plus-fixed-fee task order, AID-306-TO-16-00003 (Task Order), under Contract No. AID-OAA-I-14-00072 to Creative Associates International Inc. (Creative) in support of its Afghans Read Program. In January 2017, USAID changed the name of the program to Afghan Children Read (ACR). The purpose of the ACR program was to improve access to education and learning outcomes for Afghan children. The goal of the Task Order was to build the capacity at the Afghan Ministry of Education (MOE) to develop and implement a nationwide evidence-based early grade reading curriculum and instruction program in formal and community based education classrooms.

The Task Order's was valued at \$69,547,810, consisting of \$65,981,379 in cost reimbursement and \$3,566,431 in fixed fee. The period of performance was April 6, 2016 through April 5, 2021. The task order was modified seven times with no change to the Task Order value or period of performance.

Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of Creative's Special Purpose Financial Statement (SPFS) under the Task Order for the period October 1, 2019, through April 5, 2021. Total costs plus fixed fee reported by Creative for the period were \$19,444,117, consisting of \$17,910,553 of costs incurred plus \$1,533,564 in fixed fee.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether Creative's SPFS for the Task Order 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 Task Order and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Creative's internal control related to the Task Order; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Creative complied, in all material respects, with the Task Order requirements and applicable laws and regulations; and identify and report

CREATIVE ASSOCIATES INTERNATIONAL INC.

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on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Creative has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of the audit included the total costs plus fixed fee of \$19,444,117, consisting of \$17,910,553 of costs incurred plus \$1,533,564 in fixed fee for the period October 1, 2019 through April 5, 2021. The period of performance of the Task Order is complete and this represents a closeout audit. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates identified in the Negotiated Indirect Cost Rate Agreement (NICRA) approved by USAID.

Methodology

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

Entrance Conference

An entrance conference was held via Zoom on September 20, 2022 with representatives of Davis Farr, Creative, SIGAR and USAID in attendance.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Creative;
- Reviewed the Task Order and all modifications to date;
- Reviewed sections of the Federal Acquisition Regulation (FAR), the USAID Acquisition Regulation (AIDAR), and the USAID Automated Directives System (ADS), as applicable to the Task Order;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, moderate or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:

CREATIVE ASSOCIATES INTERNATIONAL INC.

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- For accounts that appear to contain unallowable and restricted items according to the terms of the Task Order, FAR Part 31, AIDAR, ADS and any other applicable regulations, we sampled 100% of the transactions.
- For high risk cost categories, we sampled transactions greater than \$97,200, and additional transactions below \$97,200 to ensure that at least 50% of the total amount expended for each cost category was sampled.
- For moderate risk categories, we sampled transactions greater than \$194,400, and additional transactions below \$194,400 to ensure at least 20% of the total amount expended for each cost category was sampled.
- For low risk categories, we sampled transactions to ensure at least 10% of the costs for each low risk cost category was sampled. No sample was selected for indirect costs as we tested the proper application of indirect cost rates. This included reviewing the NICRA to ensure that Creative's indirect costs did not exceed the approved rates.

Internal Control Related to the SPFS

We reviewed Creative's internal control related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal control identified by Creative and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

Compliance with Task Order Requirements and Applicable Laws and Regulations

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

Corrective Action on Prior Findings and Recommendations

We reached out to Creative, SIGAR and USAID and requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Task Order, modifications and general ledger;

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- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Task Order, and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Exit Conference

An exit conference was held on May 9, 2023 via Zoom. Participants included representatives from Davis Farr, Creative, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by Creative under the Task Order with USAID identified the following results.

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$67,382 in total questioned costs, which consists of \$2,372 in ineligible costs and \$65,010 in unsupported costs. A summary of findings and questioned costs is described in the next section.

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Costs
2021-01	Internal control – material weakness Noncompliance	Costs incurred outside of SPFS period	\$0	\$0
2021-02	Internal control – material weakness Noncompliance	Insufficiently supported costs	\$65,010	\$65,010
2021-03	Internal control – significant deficiency Noncompliance	Communication allowance exceeded policy limits	\$2,372	\$67,382

CREATIVE ASSOCIATES INTERNATIONAL INC.

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Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered CAI's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed three internal control weaknesses required to be reported under *Government Auditing Standards*. Two weaknesses are considered to be material weaknesses and one weakness is considered to be a significant deficiency. See Independent Auditor's Report on Internal Control on page 14.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Task Order and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed three instances of noncompliance related to the Task Order. See Independent Auditor's Report on Compliance on page 16.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Review of Prior Findings and Recommendations

We requested from CAI, SIGAR and USAID copies of any prior engagements including audits, reviews, and attestation engagements related to CAI's activities under the Task Order. We identified five prior reports, one of which contained three findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives: "Financial Audit of Costs Incurred By Creative Associates International, Inc. (CAII) Under USAID's Afghan Children Read (ACR) Program, Task Order No. AID-306-TO-16-00003" for the period October 1, 2018 to September 30, 2019." We performed follow-up procedures, tested transactions, and reviewed documentation to determine if the issues occurred under the current audit. Accordingly, we have concluded that CAI has taken adequate corrective action on two of the three findings. However, one finding related to unsupported subcontractor transactions was repeated on this audit. See the Status of Prior Findings on page 25 for a detailed description of the prior findings and recommendations.

Summary of the Creative's Responses

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

- Finding 2021-01 – Creative disagreed with this finding indicating that it has policies and procedures related to preparation of financial statements and the costs were not previously billed to USAID.

CREATIVE ASSOCIATES INTERNATIONAL INC.

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- Finding 2021-02 – Creative neither agreed or disagreed with this finding, but indicated it is continuing to work with one of its subcontractors to obtain documentation.
- Finding 2021-03 – Creative agreed with this finding.

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 to management's comments.

**INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT**

Creative Associates International
4445 Willard Ave Ste 400
Chevy Chase, Maryland 20815

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 of Creative Associates International Inc. (Creative) under Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003 (Task Order) with the United States Agency for International Development (USAID) to support the Afghan Children Read Program for the period October 1, 2019 through April 5, 2021, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

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

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 the standards applicable to financial audits contained in *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 Special Purpose Financial Statement is free from material misstatement.

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

Creative Associates International
4445 Willard Ave Ste 400
Chevy Chase, Maryland 20815

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

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

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, and costs incurred by Creative under the Task Order for the period October 1, 2019 through April 5, 2021 in accordance with the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the Special Purpose Financial Statement, which describes the basis of accounting. As described in Note 2, the Special Purpose Financial Statement is prepared by Creative on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of Creative, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 25, 2023 on our consideration of Creative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, the aforementioned Task Order 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 Creative's internal control over financial reporting and compliance.

Davis Fann LLP

Irvine, California
August 25, 2023

CREATIVE ASSOCIATES INTERNATIONAL INC.

Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

For the Period October 1, 2019 through April 5, 2021

	Budget	Costs Incurred	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-306-TO-16-00003	\$ 69,547,810	\$ 19,444,117	\$ -	\$ -	\$ -	(3)
Total revenues	<u>69,547,810</u>	<u>19,444,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Direct task order costs	42,964,391	10,534,304	1,993	54,630	56,623	(A)
Grants under contract	5,000,000	448,189	-	-	-	
Security	<u>4,911,829</u>	<u>1,445,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total direct costs	52,876,220	12,428,028	1,993	54,630	56,623	
Indirect costs	<u>13,105,161</u>	<u>5,482,525</u>	<u>379</u>	<u>10,380</u>	<u>10,759</u>	(4),(B)
Total costs incurred	65,981,381	17,910,553	2,372	65,010	67,382	
Fixed fee	<u>3,566,429</u>	<u>1,533,564</u>	<u>-</u>	<u>-</u>	<u>-</u>	(5)
Total costs plus fixed fee	<u>69,547,810</u>	<u>19,444,117</u>	<u>2,372</u>	<u>65,010</u>	<u>67,382</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				(6)

See Notes to Special Purpose Financial Statement
and Notes to Questioned Costs Presented on the Special Purpose Financial Statement

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Notes to Special Purpose Financial Statement¹

For the period October 1, 2019 through April 5, 2021

(1) Background

On April 6, 2016, the United States Agency for International Development's (USAID's) Mission to Afghanistan awarded a five-year \$69,547,810 cost-plus-fixed-fee task order, AID-306-TO-16-00003 (Task Order), under Contract No. AID-OAA-I-14-00072 to Creative Associates International Inc. (Creative) in support of its Afghans Read Program. In January 2017, USAID changed the name of the program to Afghan Children Read (ACR). The purpose of the ACR program was to improve access to education and learning outcomes for Afghan children. The goal of the Task Order was to build the capacity at the Afghan Ministry of Education (MOE) to develop and implement a nationwide evidence-based early grade reading curriculum and instruction program in formal and community based education classrooms.

The Task Order's total estimated cost was \$69,547,810, consisting of \$65,981,379 in cost reimbursement and \$3,566,431 in fixed fee. The period of performance was April 6, 2016 through April 5, 2021. The task order was modified seven times for items such as obligating additional funds and realigning the budget.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes revenue received and costs incurred under the Task Order for the period October 1, 2019 through April 5, 2021. Because the SPFS presents only a selected portion of the operations of Creative, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Creative. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned Task Order.

Basis of Accounting

Revenues and expenses on the SPFS are reported on the accrual basis of accounting. Revenues are recognized when earned. Expenses are recognized when incurred and follow the cost principles contained in 48 CFR Part 31, wherein certain types of expenses are not allowable or are limited as to reimbursement.

¹The Notes to Special Purpose Financial Statement with a numeric identifier are the responsibility of Creative.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of Creative. Creative uses the exchange rate of the authorized bank or financial institution effecting the conversion of U.S. dollars to local currency for in-country purchases. This foreign currency exchange rate remains in effect until another currency conversion is required.

(3) Revenue

Creative reported revenue of \$ 19,444,117 for the period October 1, 2019 through April 5, 2021.

(4) Indirect Costs

Creative’s indirect costs were reviewed and approved by USAID in a Negotiated Indirect Cost Rate Agreement (NICRA) dated August 27, 2019. The following provisional indirect cost rates were applicable to the Task Order:

The table is redacted with black boxes. It appears to have four columns and two rows of data. The first row has four cells, and the second row has four cells. The content is completely obscured.

Base of Application:

- (a) Total Cooperating Country National (CCN) dollars
- (b) Total U.S. National (USN) and Third Country National (TCN) dollars
- (c) Total direct labor dollars and bid and proposal dollars
- (d) Total costs excluding General and Administrative (G&A) and pass-through other direct expenses

(5) Fixed Fee

The Task Order is a cost-plus-fixed-fee completion type task order. Creative is entitled to receive the fixed fee in accordance with the deliverables as outlined in Section B.5 of the Task Order.

(6) Outstanding Fund Balance

As of April 5, 2021, there was no outstanding fund balance under the Task Order.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Notes to Special Purpose Financial Statement

(Continued)

(7) Subsequent Events

Creative has evaluated subsequent events through August 25, 2023, which is the date the SPFS was available to be issued. On February 28, 2022, Creative received a new NICRA with updated provisional indirect cost rates as follows:



Base of Application:

- (e) Total Cooperating Country National (CCN) dollars
- (f) Total U.S. National (USN) and Third Country National (TCN) dollars
- (g) Total direct labor dollars and bid and proposal dollars
- (h) Total costs excluding General and Administrative (G&A) and pass-through other direct expenses

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the period October 1, 2019 through April 5, 2021

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable, prohibited by the Task Order, applicable laws and regulations, or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(A) Direct Costs

Creative reported direct costs of \$10,534,304 for the period October 1, 2019 through April 5, 2021. During our audit of these costs, we identified \$56,623 in questioned costs as follows:

<u>Description</u>	<u>Finding No.</u>	<u>Questioned Costs</u>		
		<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>
Insufficiently supported costs	2021-02	\$ 0	\$54,630	\$54,630
Communication allowances in excess of policy limits	2021-03	<u>1,993</u>	<u>0</u>	<u>1,993</u>
Totals		<u>\$1,993</u>	<u>\$54,630</u>	<u>\$56,623</u>

(B) Indirect Costs

Creative reported indirect costs of \$5,482,525 for the period October 1, 2019 through April 5, 2021. The indirect cost rates described in Note 4 of the Notes to Special Purpose Financial Statement were applied to the associated questioned costs identified in Notes A and B, which resulted in \$10,759 of questioned costs as follows:

<u>Description</u>	<u>Finding No.</u>	<u>Questioned Costs</u>		
		<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>
Insufficiently supported costs	2021-02	\$ 0	\$10,380	\$10,380
Communication allowances in excess of policy limits	2021-03	<u>379</u>	<u>0</u>	<u>379</u>
Totals		<u>\$379</u>	<u>\$10,380</u>	<u>\$10,759</u>

²The Notes to Questioned Costs Presented on the Special Purpose Financial Statement with an alphabetical identifier were prepared by Davis Farr LLP for information purposes only and as such are not a part of the audited Special Purpose Financial Statement.

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

INDEPENDENT AUDITOR'S REPORT

Creative Associates International
4445 Willard Ave Ste 400
Chevy Chase, MD 20815

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Creative Associates International (Creative) under Contract No. AID-306-I-14-00072, Task Order No. AID-306-TO-16-00003 (Task Order) with the United States Agency for International Development (USAID) to support the Afghans Read Program for the period October 1, 2019 through April 5, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 25, 2023.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified two

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deficiencies in internal control, described in the accompanying Detailed Audit Findings as Finding Numbers 2021-01 and 2021-02 that we consider to be material weaknesses. In addition, we identified one deficiency in internal control, described in the accompanying Detailed Audit Findings as Finding Number 2021-03 that we consider to be a significant deficiency.

Creative's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Creative's response to the findings identified in our audit and described in the accompanying Detailed Audit Findings. Creative's response was not subjected to the other auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the 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 Creative, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Dawn Fann LLP

Irvine, California
August 25, 2023

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

INDEPENDENT AUDITOR'S REPORT

Creative Associates International
4445 Willard Ave Ste 400
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Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Creative Associates International (Creative) under Contract No. AID-306-I-14-00072, Task Order No. AID-306-TO-16-00003 (Task Order) with the United States Agency for International Development (USAID) to support the Afghans Read Program for the period October 1, 2019 through April 5, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 25, 2023.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creative's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and the aforementioned Task Order, noncompliance with which could have a direct and material effect on the Special Purpose Financial Statement. 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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Finding Numbers 2021-01, 2021-02 and 2021-03.

Creative's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Creative's response to the findings identified in our audit and described in the accompanying Detailed Audit Findings. Creative's response was not subjected to the other auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

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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 internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Creative, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Darin Fann LLP

Irvine, California
August 25, 2023

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Detailed Audit Findings

For the period October 1, 2019 through April 5, 2021

Finding 2021-01: Costs Incurred Outside of SPFS Period

Nature of Finding:

Internal control – material weakness
Noncompliance

Condition:

The amounts presented in Creative’s SPFS were inconsistent with the accounting policies described in the Notes to the SPFS. Specifically, 11 transactions were for costs incurred prior to the audit period. Creative states in Note 2 that they prepared the statement using the accrual basis of accounting, as such these transactions were improperly included in the SPFS and resulted in an overstatement of costs. The total value of the costs, including indirect costs, was \$153,673.

<u>Cost Category</u>	<u>Population</u>		<u>Sample</u>		<u>Transactions Outside of SPFS Period</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Direct costs:						
Travel	495	\$ 270,734	35	\$ 134,635	3	\$ 5,935
Other	5,538	4,338,511	87	2,167,689	1	14,112
Consultants	55	160,092	10	79,542	3	16,339
Subcontracts	152	1,540,664	30	807,576	3	98,312
Grants Under Contract	<u>35</u>	<u>448,189</u>	<u>10</u>	<u>200,703</u>	<u>1</u>	<u>18,975</u>
Totals	<u>6,275</u>	<u>\$6,758,190</u>	<u>172</u>	<u>\$3,390,145</u>	<u>11</u>	<u>\$153,673</u>

Criteria:

48 CFR § 52.230-3, *Disclosure and Consistency of Cost Accounting Practices*, states, in part:

“(a) The Contractor, in connection with this contract, shall...

(3)(i) Follow consistently the Contractor’s cost accounting practices...”

The SPFS is prepared on the accrual basis of accounting. Under the accrual basis of accounting, expenses are reported when they are incurred. In other words, the expenses are to be recognized regardless of when the payment is actually made.

Cause:

Creative does not have policies and procedures documenting the basis on which its financial documents are prepared. While Creative’s notes to the SPFS state it was prepared using the accrual method, it appears they used a method based on amounts billed to USAID. The costs for the transactions in question were incurred in the prior period but were not billed to USAID in the prior

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Detailed Audit Findings

(Continued)

quarter because they had not received the invoices before the end of the prior period. As such, Creative included the costs in the SPFS in an effort to match billings with the amounts shown in the SPFS.

Creative had insufficient controls surrounding the basis of accounting used in the preparation of its financial documents, including the SPFS and the corresponding notes to the SPFS, as well as a lack of adequate management review to ensure the basis of accounting used in the preparation of the SPFS was consistent with its notes to the SPFS. In addition, Creative does not have a documented financial reporting policy prescribing the basis of accounting utilized to determine when costs are recorded in its accounting systems.

Effect:

The revenue and costs in the SPFS are overstated. Management's inconsistency regarding the organization's use of the basis of accounting and identification of when costs are incurred under the task order increases the likelihood that costs are submitted for reimbursement in the incorrect period. As Creative will likely be prompted to prepare an SPFS in future audits of federally-funded programs, these inconsistencies in cost presentation with the stated basis of accounting will likely prompt continued challenges in producing accurate information.

Questioned Costs:

While the costs were not recorded on the SPFS, or billed to USAID, in the proper period there are no questioned costs as the amounts were allocable, allowable, and accurate.

Recommendation:

- (1) We recommend that Creative develop and document procedures regarding the preparation, review and approval of financial documents, including SPFS's, to ensure accurate and complete presentation of financial data.
- (2) We recommend that Creative identify and document a consistent basis of accounting for recording and reporting all financial transactions and activities.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Detailed Audit Findings

(Continued)

Finding 2021-02: Insufficiently Supported Costs

Nature of Finding:

Internal control – material weakness
Noncompliance

Condition:

We tested 30 payments, which consisted of 186 separate subcontract transactions totaling \$807,576 out of a population of 152 payments to subcontractors totaling \$1,540,664. Of the 186 transactions tested, no documentation was provided to support 35 transactions incurred by one subcontractor in the amount of \$54,630. The missing documentation included items such as employee timesheets, proof of payment, human resource documents supporting rates of pay, payroll registers, the subcontractor's exclusion and/or anti-terrorist check, procurement/bidding documentation, journal entry posting sheets, and vendor invoices.

Criteria:

Subcontract between Creative Associates International, Inc. and one of its subcontractors dated November 2, 2016, Section B.6, *Reimbursable costs*, states:

"The US Dollar costs allowable shall be limited to reasonable, allocable, and allowable necessary costs determined in accordance with FAR 52.216-7, Allowable Cost and Payment; FAR 52.216-8, Fixed Fee, AIDAR 752.7003, Documentation for Payments; and 2 CFR 200."

Subcontract between Creative Associates International, Inc. and one of its subcontractors dated November 2, 2016, Section G.2, *Payment Terms and Documentation*, states, in part:

"...The Subcontractor is required to submit documentation for all invoiced individual expenses, in excess of \$500, including but not limited to: timesheets, 1420 forms (biodatas), and receipts or invoices. As part of the submission of invoices to the Prime Contractor, the Subcontractor must provide documentation for expenses paid in local currency based on its organizational exchange rate policy for the month in which the cost(s) were incurred. Creative reserves the right to request additional documentation for costs incurred at any time. The Subcontractor is required to store all records for a period of 5 years after the end date of this Subcontract, and make such records available to Creative upon request and within a reasonable time-frame including any amendment periods."

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
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Detailed Audit Findings

(Continued)

48 CFR §31.201-2, *Determining allowability*, states, in part:

"...(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."

Cause:

Creative did not follow its subcontractor documentation policy. They indicated that it is not their practice to collect documentation supporting invoices (other than timesheets) from U.S. based subcontractors with NICRAs. As such, Creative does not have documentation supporting the transactions, and the subcontractor was unable to locate the documentation.

Effect:

The lack of sufficient supporting documentation to support the costs incurred is an indication that the U.S. Government may have been charged for costs that are unallowable, unallocable or unreasonable.

Questioned Costs:

Total questioned costs resulting from the unsupported subcontract transactions charged to the Task Order were \$65,010, including associated indirect costs of \$10,380 as follows.

	Total Questioned Costs
Questioned costs – unsupported	\$54,630
Associated indirect costs: [REDACTED]	[REDACTED]
Total questioned costs – unsupported	<u>\$65,010</u>

Recommendation:

- (1) We recommend that Creative either provide adequate documentation to support the costs incurred or return \$65,010 to the U.S. Government.
- (2) We recommend that Creative either follow its established policies requiring its subcontractors to submit all documentation supporting amounts invoiced to Creative to ensure documentation is available for audit or revise its policies to require U.S. based subcontractors with NICRAs to maintain documentation supporting its costs billed to Creative.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
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Detailed Audit Findings

(Continued)

Finding 2021-03: Communication Allowance Exceed Policy Limits

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

We statistically sampled and tested 58 labor transactions totaling \$76,317, out of a population of 2,802 transactions labor totaling \$3,328,460. Creative has an established policy that provides monthly amounts for telephone and internet, collectively referred to as a communication allowance. We noted that the communication allowance for 10 transactions exceeded the maximum communication allowance per Creative policies. The cumulative excess amount totaled \$1,993.

Criteria:

Memo from Chief of Party to All ACR Staff entitled Amendment 1 to Communication Policy, states, in part:

“...In order to facilitate local staff members to ensure effective communication, they will receive monthly communication expense reimbursement as per the following limits. This step is taken to facilitate official communications and support security notifications and reporting. Internet costs reimbursement will be allowed to the specified staff; as sometime they are required to work from home. Mobile phones will not be issued to staff, however; monthly communication expense of telephone and internet will be reimbursed as per the limits established herein below.

No.	Staff categories	Telephone	Internet
1	Directors/Managers/Senior Specialists	\$1,800.00	\$1,000.00
2	Specialists/Senior Officers/Officers/District & Provincial Social Mobilizers	\$1,500.00	\$1,000.00
3	Associates/Assistants/Receptionists	\$1,000.00	-
4	Support Staff	\$800.00	-

Limits are intended to be maximum costs per month, reflecting position requirements and budget availability...”

Creative Memo, *Increased Communication for Staff Working from Home During COVID19*, dated March 18, 2020, states, in part:

“...HR therefore recommends for the reasonable increase in communication allowance and proposes to double the current communication allowance for Managers, Specialists, Senior Officers and Officer level staff and also allow to adjust the

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
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Detailed Audit Findings

(Continued)

transportation allowance into communication and this change will take into effect from March 18, 2020 and will remain valid until "wok [sic] from office" status restored."

48 CFR §31.201-2, *Determining allowability*, states, in part:

"...(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."

Cause:

Creative indicated that the individuals received a communication allowance in excess of the maximum monthly amount, per established policies, as those employees worked more than the normal hours in a month and it was Creative's practice to increase the communication allowance when this occurs.

Effect:

The U.S. Government was charged for ineligible costs as the amounts paid to the individuals exceeded the maximum allowance per Creative's policy.

Questioned Costs:

Total questioned costs – ineligible resulting from the excess communication allowance charged to the Task Order was \$2,372, including associated indirect costs of \$379 as follows:

	Total Questioned Costs
Questioned costs – ineligible	<u>\$1,993</u>
Associated indirect costs: ██	— █████
Total questioned costs – ineligible	<u>\$2,372</u>

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Detailed Audit Findings

(Continued)

Recommendation:

- (1) We recommend that Creative either provide documentation to USAID to support that it correctly charged the communication allowance, or return \$2,372 to the U.S. Government for ineligible allowance costs.
- (2) We recommend that Creative update its Communication Policy to state that the maximum allowance is for a normal work month, and if hours are exceeded in a normal work month, then document how the allowance is to be modified to reflect the additional hours worked.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Status of Prior Findings

For the period October 1, 2019 through April 5, 2021

We requested from Creative, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to Creative's activities under the Task Order. We obtained and reviewed five prior reports, which consisted of two USAID financial audits and three prior SIGAR financial audits. Our review of these reports noted the following:

Reports with no findings	1
Reports with findings that were reviewed by other auditors and corrective actions were deemed adequate	3
Reports with findings requiring our evaluation of corrective actions	<u>1</u>
Total number of reports reviewed	<u>5</u>

One report contained three findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We performed follow up procedures including discussion with management, reviewed the revised policies and procedures, and conducted testing of similar areas surrounding these issues. Accordingly, we have concluded that Creative has taken adequate corrective actions on two of the three findings. Adequate corrective action was not taken on one finding, which has been repeated under this audit. The summary of prior audit findings that could have a potential material effect on the SPFS are listed below:

Audit Report: "Financial Audit of Costs Incurred By Creative Associates International, Inc. (CAII) Under USAID's Afghan Children Read (ACR) Program, Task Order No. AID-306-TO-16-00003" for the period October 1, 2018 to September 30, 2019, which was conducted by CliftonLarsenAllen LLP on behalf of USAID, and issued on March 15, 2021

- **Finding No. 1** – The audit firm noted that salaries for two employees exceeded the reasonable salary level per the National Technical Assistance (NTA) Salary Scale.

Status: We tested 58 labor transactions and noted that all individuals were paid a reasonable salary within the NTA Salary Scale. As such, the corrective action has been adequately implemented.

- **Finding No. 2** – The audit firm noted that costs related to lodging expenses paid to training participants were unsupported.

Status: We tested 188 non-labor transactions for Creative and noted that 8 transactions paid to one of Creative's subcontractors were not properly supported. Although the prior finding specifically refers to lodging costs, the issue was that the costs were unsupported. Since our testing identified costs that were unsupported, we determined that the corrective action has not been adequately implemented. See Finding 2021-02.

- **Finding No. 3** – The audit firm noted that labor rates charged were not approved by USAID.

Status: We tested 58 labor transactions and noted that salaries paid to all individuals tested were properly approved. As such, the corrective action has been adequately implemented.

APPENDIX A: Views of Responsible Officials



Finding 2021-01: Costs Incurred Outside of SPFS Period (page 18)

Creative Response:

Creative disagrees with this audit finding. Creative has policies and procedures on the basis for which its financial statements are prepared. The costs prior to the current audit period were accrued in FY2019 per the GL submitted to the auditor and the revenue recognized in the same period. The accrued costs were not billed to the client and not included in the SPFS for the FY2019 audit. They were billed and included in the current SPFS because it is final as the project has closed. The inclusion of the costs in the current SPFS did not result in an overstatement of total project revenue and expenses. The SPFS reflects the accurate amounts billed to USAID for this audit.

Finding 2021-02: Insufficiently Supported Costs (Page 20)

Creative Response:

Creative continues working with IRC to obtain the missing supporting documents to rectify this finding.

Finding 2021-03: Communication Allowance Exceed Policy Limits (Page 22)

Creative Response:

Creative accepts this audit finding, communication policy for future projects will be corrected.

CREATIVE ASSOCIATES INTERNATIONAL INC.

Audit of the Special Purpose Financial Statement
For Contract No. AID-OAA-I-14-00072, Task Order No. AID-306-TO-16-00003
Afghan Children Read

Auditor's Rebuttal to Creative's Response to Findings

Finding 2021-01: Creative disagreed with this finding. Finding 2021-02: Creative neither agreed or disagreed with the finding as they did not fully address the finding or its recommendations. Finding 2021-03: Creative agreed with this finding but did not fully address the findings recommendations. Please see our rebuttal to finding 2021-01 and comments related to Findings 2021-02 and 2021-03 below.

Finding 2021-01: Costs Incurred Outside of SPFS Period

Creative disagreed with this finding asserting they have policies and procedures related to preparation of financial statements. They also claim that inclusion of the costs in question did not result in an overstatement of total project revenue and expenses. Creative concluded that the SPFS for the period October 1, 2019 through April 5, 2021 included in this audit reflects accurate amounts billed to USAID. We agree with Creative's conclusion that the SPFS for this audit reflects amounts billed to USAID. However, billed amounts are not an accurate way to capture costs for accrual-based statements, which is the basis Creative indicated it prepared the SPFS. As such, we disagree with Creative's assertion that the SPFS for this audit is not overstated as it includes 11 transactions that were billed during the audit period but were incurred prior to the audit period. The inclusion of transactions incurred in a prior period effectively overstates revenues and the costs incurred. As the transactions were not previously billed to USAID and are otherwise allocable to the project, we did not question any costs. Our finding and recommendations remain unchanged. The SPFS is overstated and Creative needs to adopt policies and procedures for preparing financial statements including SPFSs to ensure statements accurately reflect the stated basis of accounting.

Finding 2021-02: Insufficiently Supported Costs

Creative neither agreed or disagreed with this finding. They stated they will continue to work with the subcontractor to obtain supporting documentation. Creative's response did not address the finding's recommendations to return the \$65,010 of inadequately supported costs, and to update their subcontractor documentation policies. The finding and recommendations remain unchanged.

Finding 2021-03: Communication Allowance Exceeds Policy Limits

Creative agreed with this audit finding, and noted they will correct their communication policies. However, they did not address the finding's recommendation to return \$2,372 of ineligible costs it charged to the government. The finding and recommendations remain unchanged.

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

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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
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- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

SIGAR's Mission

Public Affairs Officer

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