

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-76 Financial Audit**

## USAID's Stabilization in Key Areas East Program: Audit of Costs Incurred by AECOM International Development, Inc.

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



**JULY  
2015**

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On December 7, 2011, the U.S. Agency for International Development (USAID) awarded an 18-month, \$177,054,663 contract to AECOM International Development, Inc. (AECOM) to support the Stabilization in Key Areas East program. The primary goal of the program was to promote stabilization in the eastern region of Afghanistan by increasing the provision of basic government services and implementing community-led initiatives in coordination with provincial governments. Efforts included implementing community-led development and governance initiatives that responded to the population's needs and concerns in order to build confidence and stability. After five modifications, the base contract period was extended through March 6, 2014, and USAID exercised the additional 18-month option period.

SIGAR's financial audit, performed by Williams Adley and Company-DC, LLP (Williams Adley), reviewed \$82,925,502 in expenses charged to the contract from December 7, 2011, through August 31, 2014. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in AECOM's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AECOM has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AECOM's Special Purpose Financial Statement. See Williams Adley's report for the precise audit objectives.

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

July 2015

## USAID's Stabilization in Key Areas East Program: Audit of Costs Incurred by AECOM International Development, Inc.

SIGAR 15-76-FA

### WHAT THE AUDIT FOUND

Williams Adley and Company-DC, LLP (Williams Adley) identified one deficiency in internal control and no instances of material noncompliance. AECOM International Development, Inc. (AECOM) did not maintain contract documentation for an employee, leading Williams Adley to question \$6,807 in salary-related costs. Additionally, Williams Adley noted that supporting documentation for two transactions totaling \$121 did not agree with AECOM's general ledger. Williams Adley found these questioned costs to be the result of AECOM using a different Afghani to U.S. dollar exchange rate for amounts invoiced than was retained in its records.

As a result of the internal control deficiency, Williams Adley identified \$6,928 in total questioned costs, all of it consisting of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. The questioned costs did not include any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Salary and Fringe	\$0	\$6,807	\$6,807
Direct Facilities Cost	\$0	\$104	\$104
Equipment and Supplies	\$0	\$17	\$17
<b>Totals</b>	<b>\$0</b>	<b>\$6,928</b>	<b>\$6,928</b>

Williams Adley obtained and reviewed prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. Williams Adley identified five audit findings from a September 2014 SIGAR financial audit related to the scope of this audit (see SIGAR 14-94-FA, *USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development, Inc.*, September 3, 2014). Four of the five audit findings from the prior audit concerned document retention—an issue repeated in this audit. After reviewing and assessing documentation, Williams Adley determined that AECOM had taken adequate corrective actions on the recommendations that addressed these findings.

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

### WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$6,928 in questioned costs identified in the report.**
2. **Advise AECOM to address the report's one internal control finding.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 20, 2015

The Honorable Alfonso E. Lenhardt  
Acting Administrator, U.S. Agency for International Development

Mr. William Hammink  
USAID Mission Director for Afghanistan

We contracted with Williams Adley and Company-DC, LLP (Williams Adley) to audit the costs incurred by AECOM International Development Inc. (AECOM) under a U.S. Agency for International Development (USAID) contract awarded to implement the Stabilization in Key Areas (SIKA) East program.<sup>1,2</sup> Williams Adley's audit covered \$82,925,502 in expenditures incurred from December 7, 2011, through August 31, 2014. Our contract 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 contracting officer at the USAID Mission for Afghanistan:

- 1. Determine the allowability of and recover, as appropriate, \$6,928 in questioned costs identified in the report.**
- 2. Advise AECOM to address the report's internal control finding.**

The results of Williams Adley's audit are further detailed in the attached report. We reviewed Williams Adley'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 AECOM's Special Purpose Financial Statement. We also express no opinion on the effectiveness of AECOM's internal control or compliance with the cooperative agreement, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Williams Adley 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-051)

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<sup>1</sup> USAID awarded contract number AID-306-C-12-00002 to AECOM to implement the SIKA East program, which was intended to promote stabilization in the eastern region of Afghanistan by increasing the provision of basic services and implementing community-led initiatives through coordination with provincial governments.

<sup>2</sup> SIGAR has previously reported on the SIKA program (see SIGAR 14-94-FA, *USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development, Inc.*, September 3, 2014; and SIGAR Audit 13-16, *Stability in Key Areas (SIKA) Program: After 16 Months and \$47 Million Spent, USAID Had Not Met Essential Program Objectives*, July 29, 2013).

**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN  
RECONSTRUCTION**

**FINANCIAL AUDIT OF COSTS  
INCURRED BY  
AECOM International Development, Inc.**

**Contract:  
AID-306-C-12-00002  
Stability in Key Areas (SIKA) East**

**For the period of:  
December 7, 2011 to August 31, 2014**

Submitted by



June 5, 2015

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## Transmittal Letter

June 2, 2015

Leadership Team  
AECOM International Development, Inc.  
Arlington, VA

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

We hereby provide to you our final report, which reflects results from the procedures we completed during the course of our audit of the AECOM International Development, Inc. contract number AID-306-C-12-00002 with the United States Agency for International Development (USAID) for its Stability in Key Areas (SIKA) East program.

Within the pages that follow, we provide a brief summary of the work performed. Following the summary, we provide 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 and any information preceding our reports.

On March 20, 2015, we provided SIGAR a draft report reflecting our audit procedures and results. AECOM received a copy of the report on April 24, 2015 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and AECOM. AECOM's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of AECOM's SIKA East contract.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jocelyn Hill', written over the printed name and title.

Jocelyn Hill, CPA  
Partner

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

*Certified Public Accountants / Management Consultants*

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## Summary

### Background

The United States Agency for International Development (USAID) provides funding to contractors for services related to reconstruction activities in Afghanistan. Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs; and 2) detect and prevent waste, fraud, and abuse. As a result, USAID funded activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The Stability in Key Areas (SIKA) program is one of the programs designed to accomplish reconstruction objectives in Afghanistan. The SIKA program is comprised of four regional projects designed to promote good governance and service delivery in targeted districts, with the intended effect of reducing the impact of the insurgency, increasing confidence in the Afghan Government, and paving the way for a peaceful security transition. SIKA delivers assistance in two ways: building the capacity of sub-national government structures and delivering community grants for small scale, community and government-endorsed projects. SIKA partners closely with the Ministry of Rural Rehabilitation and Development (MRRD) and the Independent Directorate of Local Governance (IDLG) to strengthen existing sub-national development and governance structures, including Community Development Councils (CDCs) and District Development Assemblies (DDAs). SIKA supports both top-down and bottom-up linkages between the Afghan Government and local development and governance entities, helping identify sources of instability and address needs and grievances identified by targeted communities. While SIKA is a stabilization program, its direct partnership with MRRD and IDLG, as well as its emphasis on promoting Afghan Government sub-national structures, makes it uniquely positioned to assist targeted districts with transitioning to good governance and service delivery.

AECOM International Development Inc. (AECOM) is a component of AECOM, Inc. AECOM is one of many entities receiving United States Government funding to assist with the reconstruction of Afghanistan infrastructure and improve the quality of life for its people. AECOM's headquarters are located in Arlington, Virginia.

Under the SIKA program, AECOM received contract awards for three of the four regional projects: South, East and West. For SIKA East, AECOM initially received a Cost-Plus-Fixed-Fee award (base and option period) totaling \$177,054,663 under the cost reimbursable contract number AID-306-C-12-00002. The objective of the SIKA East project is to promote stabilization in the East Region of Afghanistan by supporting the Government of the Islamic Republic of Afghanistan (GIROA) at the district level, while coordinating efforts at the provincial level. These efforts include implementing

community led development and governance initiatives that respond to the population's needs and concerns in order to build confidence and stability, and increase the provision of basic services in accordance with USAID's Foreign Assistance Framework.

AECOM designed the project to comply with the specific requirements of the contract along with the objectives of the program by performing various procedures such as: determining the areas needing improvement; holding discussions with the region's government and community leaders; selecting local employees; and developing training plans, etc.

AECOM was approved to utilize five subcontractors. These subcontractors are as follow:

1. International Relief and Development (IRD)
2. Development Transformation
3. GardaWorld
4. Technologists Inc.
5. Overseas Strategic Consulting, LTD

During the on-site fieldwork we found that USAID suspended IRD, the largest nonprofit contractor in Iraq and Afghanistan. We brought this issue to the attention of AECOM personnel and were informed that AECOM had not received specific information on how to proceed on this matter. As of the date of this report, we have no additional details on this issue.

The SIKA East award was modified at least five times during this audit's period of performance between December 7, 2011 and August 31, 2014. The modifications did not increase the funding of the initial award, but did result in budget realignments, an extension of the base period from June 7, 2013 to March 6, 2014, and exercise of the option year.

## **Work Performed**

Williams Adley and Company-DC, LLP (Williams Adley) was contracted by SIGAR to conduct a financial audit of AECOM's Special Purpose Financial Statement for the SIKA East program, contract number AID-306-C-12-00002.

## **Objectives**

The objectives of the audit were to:

1. Express an opinion on whether the Special Purpose Financial Statement for the contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles (GAAP) or other comprehensive basis of accounting.
2. Evaluate and obtain a sufficient understanding of the audited entity's internal controls related to the USAID-funded contract; assess control risk; and identify

and report on significant deficiencies, including material internal control weaknesses.

3. Perform tests to determine whether AECOM complied, in all material respects, with contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
4. Determine and report on whether AECOM has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement.

## Scope

The scope of work in performing financial audit of costs incurred by AECOM under the SIKA East project in Afghanistan under contract no. AID-306-C-12-00002, for the period of December 7, 2011 to August 31, 2014, was to:

1. Review the Special Purpose Financial Statement and related Notes to the Special Purpose Financial Statement (SPFS), preparation of which is the responsibility of AECOM's management. This review included assessing the underlying financial transactions and records that support the SPFS. In addition, we reviewed internal controls related to the financial information for the audit period of December 7, 2011 to August 31, 2014. This included review of internal control related to financial management systems controls and edit checks, and procedural controls (documentation receipt, validation, reviews, approval levels, recordation, reconciliation, separation of duties, signatory requirements, etc.).
2. Identify and review prior internal or external audits of AECOM or SIKA projects to determine what, if any, prior recommendations were made and subsequent corrective actions taken. If applicable, evaluate those findings, recommendations and corrective actions to determine material effect on this audit of the SPFS. These reports may be obtained from AECOM, SIGAR and/or USAID/Afghanistan, and evaluated to determine if they have a material effect on the current SPFS audit. These reports may include: accounting, labor, purchasing and estimating systems, compliance with laws and regulations, audits, etc.
3. Perform compliance testing including, but not limited to, activities allowed or unallowable; allowable costs/cost principles; cost determination/indirect costs; cash management; eligibility; equipment and real property management; matching, level of effort and earmarking; period of availability of Federal funds; procurement and suspension and debarment; program income; reporting; and subcontractor selection and monitoring in accordance

with contract and subcontract requirements, Agency for International Development Acquisition Regulation (AIDAR), and the Federal Acquisition Regulation (FAR).

We reviewed transactions for the period from December 7, 2011 through August 31, 2014 and subsequent events and information related to the findings and Questioned Costs for the audit period, and we expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

## **Methodology**

To meet the audit objectives, Williams Adley identified and reviewed applicable background materials, including the original contract and subsequent modifications, sub-contracts and project documents, USAID regulations and program objectives, OMB Circulars, FAR, GAO Government Auditing Standards, generally accepted accounting principles, and other applicable laws and regulations to gain a thorough understanding of the project activities, the requirements of the contract, and any past findings and recommendations that may impact the audit of AECOM's Special Purpose Financial Statement and supporting financial records and documentation.

We met with designated auditee key personnel to gain a more complete understanding of the financial, compliance and internal control issues the project has encountered. In addition, Williams Adley reviewed AECOM's organizational charts and reporting hierarchy, policies and procedures, and the status of prior audit report findings to gain an understanding of the normal procedures and system of internal controls established by AECOM to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Also, we conducted interviews (including fraud interviews) with AECOM's key personnel in the accounting, finance, and contract departments, and SIKA East project managers and other personnel responsible for the program performance.

Williams Adley used both random and risk-based sampling techniques to select expenditures and payroll samples to test for allowability of incurred costs, and we reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards. We requested and received supporting documentation for compliance evaluation of incurred costs. We reviewed submitted financial status reports for accuracy and compliance with reporting requirements. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in compliance with the negotiated indirect cost rate agreement.

## **Summary of Results**

Williams Adley issued an unmodified opinion on AECOM's Special Purpose Financial Statement ("Statement"). Williams Adley also reported on AECOM's internal controls and compliance with contract terms and applicable laws and regulations regarding the Statement, and did not note any significant deficiencies or material weaknesses related

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thereto. Upon completion of our audit procedures, Williams Adley identified one finding. This finding was considered a deficiency in internal controls. A total of \$6,928<sup>1</sup> was questioned. The following Table 1 provides details on the respective cost elements and Questioned Costs.

**Table 1: Summary of Questioned Costs**

Cost Element	Direct Questioned Costs	Indirect Questioned Costs	Total Questioned Costs
Salary and Fringe	\$5,608	\$1,199	\$6,807
Direct Facilities Costs	\$95	\$9	\$104
Equipment and Supplies	\$15	\$2	\$17
<b>Totals</b>	<b>\$5,718</b>	<b>\$1,210</b>	<b>\$6,928</b>

This summary is intended to present an overview of the results of procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

### ***Summary of Management Comments***

Management agreed with the finding, stated that AECOM would reimburse USAID the \$6,928 in questioned costs, and commented that it would review its records management controls to ensure sufficient supporting documentation for costs claimed is maintained. Management's full response is detailed in Attachment B. The auditor responded to management's comments as detailed in Attachment C to this Audit Report.

### ***Summary of Prior Audit Reports***

Prior audits, assessments or reviews of AECOM that we considered applicable to the scope of our work were obtained and read to ensure that there were no significant deficiencies or material weaknesses noted. We obtained and reviewed SIGAR 14-94 Financial Audit, USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development, Inc. covering the period of July 5, 2009, through January 31, 2012. The audit was performed by Kearney & Company P.C. and the total expenditures audited were \$34,458,220.

For significant deficiencies or material weaknesses, which we considered pertinent to this audit, we performed test work to ensure proper correction of existing significant deficiencies or material weaknesses that could have an impact on the project. We obtained an understanding of the AECOM prior year findings and their current status. Per our inquiries and review, it appears that AECOM has implemented the prior year audit recommendations. The details of the status of prior year audit findings are contained in Attachment A to this Audit Report.

<sup>1</sup> Includes indirect costs. Refer to Schedule of Findings and Questioned Costs for details.

**Attachments**

The auditor's reports are supplemented by 3 attachments:

Attachment A contains prior audit report's findings.

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

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



## **Independent Auditors' Report on the Special Purpose Financial Statement**

Leadership Team  
AECOM International Development  
Arlington, VA

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

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

We have audited the Special Purpose Financial Statement (the "Statement") of the AECOM International Development (AECOM) contract number AID-306-C-12-00002 for the period of December 7, 2011 to August 31, 2014, and the related Notes to the Statement.

### ***Management's Responsibility for the Special Purpose Financial Statement***

AECOM's management is responsible for the preparation and fair presentation of the Statement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with 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

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

*Certified Public Accountants / Management Consultants*

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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 reasonable basis for our unmodified opinion.

The accompanying Statement was prepared to present the revenues earned and costs incurred of AECOM pursuant to contract number AID-306-C-12-00002 described in Note 2, and is not intended to be a complete presentation of AECOM's assets, liabilities, revenues and expenses.

### ***Opinion***

In our opinion, the Statement referred to above presents fairly, in all material respects, program revenues and costs incurred and reimbursed under contract number AID-306-C-12-00002, for the period of December 7, 2011 to August 31, 2014 and procured by USAID for the indicated period in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2.

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

This report is intended for the information of AECOM, the United States Agency for International Development and 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 March 4, 2015 on AECOM's internal controls and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

*Williams, Adley & Company PC, LLP*  
Washington, D.C.  
March 4, 2015

## AECOM International Development, Inc.

**Special Purpose Financial Statement**

For the Period of December 7, 2011 to August 31, 2014

	Total Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
<b>Revenues</b>					
Contract AID-306-C-12-00002	\$177,054,663	\$82,925,502			
<b>Total Revenue</b>	<b>\$177,054,663</b>	<b>\$82,925,502</b>			
<b>Cost Element</b>					
Salary and Wages	\$22,011,999	\$12,088,726		\$5,608	A
Fringe Benefits	1,548,784	1,142,904		1,210	A, B, C
Travel, Transportation, Per Diem	5,261,609	1,539,379			
Procurement	1,390,605	1,584,448			6
Equipment and Supplies	1,269,083	850,010		15	B
Communications	1,914,101	1,184,673			
Subcontracts/Consultants	42,608,649	22,002,681			
Allowances	2,893,505	2,032,136			
Direct Facilities Costs	6,687,301	2,192,383		95	C
Other Direct Costs	14,247,255	8,398,984			
<b>Direct Contract Expenditures</b>	<b>\$99,832,891</b>	<b>\$53,016,324</b>		<b>\$6,928</b>	
Security	10,343,562	6,041,797			
Indirect Costs	16,210,948	9,406,798			
<b>Total Cost</b>	<b>\$126,387,401</b>	<b>\$68,464,919</b>		<b>\$6,928</b>	
Fixed Fee	8,667,262	5,936,167			
Grants under Contract	42,000,000	8,524,416			
<b>Total Cost-Plus-Fixed-Fee</b>	<b>\$177,054,663</b>	<b>\$82,925,502</b>		<b>\$6,928</b>	
Outstanding Balance (deficit)		\$0			

The Notes to the Special Purpose Financial Statement are an Integral Part of this Statement

## **Notes to the Special Purpose Financial Statement<sup>2</sup>**

For the Period December 7, 2011 through August 31, 2014

### **Note 1. Program Status**

The SIKA East program is still active and all AECOM program related files are maintained at AECOM's main office in Arlington, Virginia.

### **Note 2. Basis of Presentation**

The Special Purpose Financial Statement (the "Statement") includes revenue and costs incurred under contract number AID-306-C-12-00002 with the United States Agency for International Development (USAID) Stability in Key Areas (SIKA EAST) for the period of December 7, 2011 to August 31, 2014.

The objective is to promote stabilization in key areas by supporting the Government of the Islamic Republic of Afghanistan (GIROA) at the district level, while coordinating efforts at the provincial level, to implement community-led development and governance initiatives that respond to the population's needs and concerns in order to build confidence, stability, and increase the provision of basic services.

The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction. Therefore, some amounts presented in this Statement may differ from amounts presented in the basic financial statements.

### **Note 3. Basis of Accounting**

The Statement reflects the revenues earned and expenses incurred under the contract. It has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

### **Note 4. Currency Used**

All amounts presented are shown in United States Dollars (USD).

### **Note 5. Foreign Currency Conversion Method**

Expenses are translated into USD at the weighted average monthly rate which is calculated based on monthly transfers from the USD bank account to the local currency bank account. Currency fluctuations between monthly rates are not included as an expense to the project and absorbed by AECOM.

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<sup>2</sup> Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of AECOM's management.

For purposes of preparing the Statement, AECOM applies a conversion rate to foreign currency transactions for all expenses incurred and paid to businesses and entities operating in the Islamic Republic of Afghanistan, including sub-recipient billings and subcontracts wherein the expenses were recorded in Afghanis. The conversion rate is adjusted monthly and ranged from 0.0172 to 0.0205 United States Dollar per Afghani.

**Note 6. Costs Incurred by Budget Category**

The budget line items referenced on the Statement are shown against the latest amendment of the contract budget per Modification number 3 as of February 26, 2013. Incurred and billed costs to USAID are shown as of Bill No. 43 dated September 9, 2014. AECOM invoices included the Negotiated Indirect Cost Rate Agreement (NICRA) rates based on the provisional rates approved at that time period.

AECOM invoiced USAID more than budgeted under the procurement line in the original approved budget; however, the budget modification was duly submitted for approval in sufficient time before the line item approached the budgeted amount and is currently under review by USAID. A final decision has not been made at the close of this audit.

## **Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>3</sup>**

### **Note A: Questioned Costs – Salary & Wages and Fringe**

Finding 2015-01 questions \$5,608 in salary & wages related costs and \$1,199 in AECOM indirect costs<sup>4</sup> for transactions that were missing contract supporting documentation for one individual. As a result, we questioned the transactions as unsupported costs.

### **Note B: Questioned Costs – Equipment and Supplies**

Finding 2015-01 questions \$15 in direct facilities costs and \$2 in AECOM indirect costs for one transaction because the supporting documents did not agree with the amount per the General Ledger. As a result, we questioned the transactions as unsupported costs.

### **Note C: Questioned Costs – Direct Facilities Costs**

Finding 2015-01 questions \$95 in direct facilities costs and \$9 in AECOM indirect costs for one transaction wherein the supporting documents did not agree with the amount per the General Ledger. As a result, we questioned the transactions as unsupported costs.

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<sup>3</sup> Alphabetic notes to the Questioned Costs presented on the special purpose financial statement were developed by and are the responsibility of the auditor.

<sup>4</sup> Questioned indirect costs were calculated by applying the applicable Negotiated Indirect Cost Rates to the questioned costs by category by AECOM fiscal year.



## **Independent Auditors' Report on Internal Control**

Leadership Team  
AECOM International Development  
Arlington, VA

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

We have audited the Special Purpose Financial Statement ("Statement") of the AECOM International contract number 306-C-12-00002 for the period of December 7, 2011 to August 31, 2014, and have issued our report thereon dated March 4, 2015.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiency in internal control that we considered to be a significant deficiency or material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected on a timely basis.

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

*Certified Public Accountants / Management Consultants*

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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 did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies described in the Schedule of Findings and Questioned Costs to be immaterial.

As part of Finding 2015-01, AECOM was unable to provide contract documentation for one employee performing under the SIKA East project. In addition, when performing the recalculation of other direct costs and equipment and supplies transactions, the results obtained did not agree to the amount recorded in the AECOM General Ledger. We determined this difference occurred because the exchange rates used for converting from Afghani to USD was not the same as that for which we received support. In total, we questioned \$6,928 (\$5,718 in direct costs and \$1,210 in indirect costs) as a result of these internal control deficiencies.

This report is intended solely for the information of AECOM, United States Agency for International Development 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, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

*Williams, Adley & Company-DC, LLP*  
Washington, D.C.  
March 4, 2015



## **Independent Auditors' Report on Compliance**

Leadership Team  
AECOM International Development  
Arlington, VA

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

We have audited the Special Purpose Financial Statement ("Statement") of the AECOM International Development, Inc. contract number AID-306-C-12-00002 for the period of December 7, 2011 to August 31, 2014, and have issued our report thereon dated March 4, 2015.

We conducted our audit in accordance with U.S. 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

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

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. We did not identify any deficiencies that we consider to be a material instance of noncompliance. We noted no instance of fraud, waste or abuse during the period audited.

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*Williams, Adley & Company-DC, LLP*  
Washington, D.C.  
March 4, 2015

## Schedule of Findings and Questioned Costs

### Finding 2015-01: Unsupported Questioned Costs

**Condition:** We tested 3,595 randomly selected transactions totaling \$65,925,275 of incurred costs from a total population of \$82,925,502 or 79% of the total incurred costs between December 7, 2011 and August 31, 2014.

AECOM could not provide sufficient supporting documentation for the following transactions in the Salary and Fringe Benefits and Direct Facility Costs of the Special Purpose Financial Statement:

**Table 2: Summary of Unsupported Questioned Costs**

Cost Element	Direct Questioned Costs	Indirect Questioned Costs	Total Questioned Costs
Salary and Fringe	\$5,608	\$1,199	\$6,807
Direct Facilities Costs	\$95	\$9	\$104
Equipment and Supplies	\$15	\$2	\$17
<b>Totals</b>	<b>\$5,718</b>	<b>\$1,210</b>	<b>\$6,928</b>

**Table 3: Questioned Costs related to Salary and Fringe**

Item Number	Condition	Direct Questioned Costs	Indirect Questioned Costs	Total Questioned Costs
18, 136, 213, 262, 326, and 461 10/2012, 11/2012, 5/2013 – [REDACTED]	AECOM Local Employee's contract was not provided to support the costs incurred.	\$5,608	\$1,199	\$6,807
<b>Totals</b>		<b>\$5,608</b>	<b>\$1,199</b>	<b>\$6,807</b>

**Table 4: Questioned Costs related to Direct Facility Costs**

Item Number	Condition	Direct Questioned Costs	Indirect Questioned Costs	Total Questioned Costs
23 Connex for [REDACTED] Invoice [REDACTED] 8/10 Voucher 99232	When performing the recalculation of certain direct facility cost transactions, the results obtained did not agree to the amount recorded in the General Ledger	\$95	\$9	\$104
<b>Totals</b>		<b>\$95</b>	<b>\$9</b>	<b>\$104</b>

**Table 5: Questioned Costs related to Equipment and Supplies**

Item Number	Condition	Direct Questioned Costs	Indirect Questioned Costs	Total Questioned Costs
13 Invoice [REDACTED] 07/10 voucher 104139	When performing the recalculation of certain equipment and supplies transactions, the results obtained did not agree to the amount recorded in the General Ledger	\$15	\$2	\$17
<b>Totals</b>		<b>\$15</b>	<b>\$2</b>	<b>\$17</b>

**Criteria:** Under Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures, subsection 31.201-2(d), a contractor is responsible for accounting for costs appropriately and for maintaining adequate records, including supporting documentation, 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:** AECOM did not follow FAR requirements for appropriately accounting for costs and maintaining records in the instances noted due to an oversight on the part of AECOM in its records management responsibilities. We also noted that in two instances the exchange rate used was incorrect.

**Effect:** The absence of sufficient and adequate source documentation that matched invoices paid and the application of incorrect currency exchange rates resulted in \$6,928 in incurred costs that were not properly supported. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged and opportunities for waste, fraud, and abuse of government funds is increased.

**Recommendation:** We recommend that AECOM management:

- provide USAID with records that clearly support the \$6,928 in questioned costs presented above that were charged to USAID;
- reimburse USAID for those amounts for which adequate support could not be provided; and
- review records management controls to ensure measures are in place to prevent loss of documentation and ensure that appropriate exchange rates are applied when converting incurred costs from Afghani to United States Dollars.

## Attachment A – Prior Audit Report Findings

We obtained and reviewed SIGAR 14-94 Financial Audit, USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development, Inc. covering the period of July 5, 2009, through January 31, 2012. The audit was performed by Kearney P.C. and the total expenditures audited were \$34,458,220.

The following are the details on the findings and their current status.

- **NFR 2014-1:** Inadequate Controls in Place to Prevent Documentation Loss (Material Weakness)

**Condition:** Inadequate AECOM International Development, Inc. (AECOM) internal processes did not prevent documentation loss or provide for back-up records related to the Afghanistan Social Outreach Program (ASOP) transactions occurring between July 5, 2009 and January 31, 2012 resulting in unsupported costs in the unburdened amount of \$313,688 (\$327,742 burdened) and a material weakness. The dollar values reported in this finding are whole United States Dollars (USD), and the fully burdened amounts are calculated using the rates per AECOM's Negotiated Indirect Cost Rate Agreement (NICRA) and other relevant fees to the contract. Relevant supporting documentation pertaining to Payroll, Other Direct Costs (ODCs), Program Costs, and Travel and Per Diem was not provided.

**Current Status:** We reviewed all policies and procedures related to the document retention including the time AECOM must retain files and documentation on the SIKA East project, and performed field work procedures to determine that controls were in place and adequate documentation supporting the costs incurred was readily available. Supporting documentation is comprised of payroll records, timesheets, approved NICRA, and other relevant documentation reviewed and compared to specific test attributes relating to supportable costs, reasonable costs, and sufficiency of internal controls contained in our testing procedures. We did note a finding and questioned costs related to supporting documentation not provided, but this finding did not result in material questioned costs.

- **NFR 2014-2:** Ineffective Controls Over Payments (Significant Deficiency)

**Condition:** AECOM internal processes over ASOP transactions occurring between July 5, 2009 and January 31, 2012 resulted in a significant deficiency and total unburdened unsupported costs of \$17,382 (\$19,817 burdened). The dollar values reported in this finding are whole USDs and the fully burdened

amounts are calculated using the rates per AECOM's NICRA and other relevant fees to the contract. Relevant supporting documentation pertaining to Sub-contracts and ODCs was not properly reviewed and approved by supervisory AECOM personnel.

**Current Status:** AECOM did take adequate corrective action to ensure controls over payments are effective such as: segregation of duties; different levels and thresholds for approving payments and appropriate documentation before approving a payment; confirmation of payment made by reviewing cancelled checks, bank statement, payroll summary, etc. We performed disbursement field work to include documentation of proper control over payments as part of the test attributes. We did not note any findings and questioned costs related to controls over payments.

- **NFR 2014-3:** Ineffective Review of Insurance Premiums Incurred (Repeat-Significant Deficiency)

**Condition:** AECOM internal processes did not produce or retain sufficient documentation related to insurance premium payments for ASOP transactions occurring between July 5, 2009 and January 31, 2012, resulting in a significant deficiency and unburdened questioned costs totaling \$112,114 (\$127,810 burdened). The dollar values reported in this finding are whole USDs and the fully burdened amounts are calculated using the rates per AECOM's NICRA and other relevant fees to the contract. For five instances of ODCs, AECOM did not provide sufficient documentation, specifically payroll and personnel records, to support the insurance premium costs incurred for employees associated with the Defense Base Act (DBA) and Accidental Death and Dismemberment (AD&D). In all instances, the insurance policy and invoices were provided.

**Current Status:** We performed disbursement field work to include documentation on transactions related to insurance premiums as part of the disbursement test attributes by confirming there is: segregation of duties; different levels and thresholds for approving payments and appropriate documentation before approving a payment of insurance premiums incurred; confirmation of this payment by reviewing cancelled checks, bank statement, payroll summary, etc.; and that the supporting documentation supported the incurred costs. We did not note any findings and questioned costs related to review of insurance premiums incurred.

- **NFR 2014-4:** Non-Compliance with Contract Clause (Non-Compliance)

**Condition:** AECOM internal processes did not produce or retain sufficient documentation related to USAID approval for Non-Expendable Property for ASOP transactions occurring between July 5, 2009 and January 31, 2012, resulting in an instance of non-compliance with the contract terms and

unburdened questioned costs totaling \$11,900 (\$13,556 burdened). The dollar values reported in this finding are whole USDs, and the fully burdened amount is calculated using the rates per AECOM's NICRA and other relevant fees to the contract.

For one sampled ODC transaction related to purchases of non-expendable property, AECOM did not provide sufficient documentation to evidence that USAID approved the purchase, as required by the contract terms. A procurement plan was submitted to USAID for approval, listing a variety of non-expendable property items to be purchased, and USAID approved that procurement plan; however, one specific piece of property purchased, a server, was not included in the procurement plan. The sampled transaction procured two servers and the approved procurement plan included only one server. Thus, the unit cost of one server is questioned resulting in burdened unsupported costs of \$13,556. The unburdened costs associated with these instances are \$11,900.

Per the AECOM Contract, Section H.10b, "Property": "All purchases of nonexpendable property must be approved for purchase by the Contracting Officer."

**Current Status:** AECOM did take corrective action to ensure compliance with contract clauses. We reviewed policies and procedures and performed field work procedures such as: to determine that controls were in place and adequate documentation supporting the costs incurred was readily available. We arrived at this conclusion after no issues were disclosed during this audit that could represent AECOM's noncompliance with the contract clauses.

- **NFR 2014-5:** Non-Compliance with Federal Acquisition Regulation (Non-Compliance)

**Condition:** AECOM internal processes did not produce or retain sufficient documentation related to the disposition of non-expendable property for ASOP transactions occurring between July 5, 2009 and January 31, 2012, resulting in one collective instance of non-compliance with a clause of the FAR that was specifically referred to in the contract, and which is described in further detail below.

For one sampled ODC transaction related to non-expendable property costs, AECOM did not maintain documentation with sufficient detail to uniquely identify the non-expendable property selected for testing as being included on the property disposition schedule provided to USAID. A property disposition schedule was provided and USAID had approved the schedule; however, we were unable to identify that two servers procured within one sampled non-expendable property purchase were included. The disposition schedule provided showed the disposition of servers at a unit cost of \$750, and the unit cost of the servers

sampled was \$11,900.

Note that this is the same sample of servers as in ASOP NFR 2014-4. Except for as described in ASOP NFR 2014-4, we were otherwise able to determine that the property procurements were appropriate and supported, and thus this finding does not result in questioned costs.

**Current Status:** AECOM did take corrective action to ensure compliance with Federal Acquisition Regulation 52.245-1. We performed a policies review of procurement and inventory controls and we conducted field work procedures to determine controls were in place and adequate documentation supporting the costs incurred was readily available for all Government Property. We did note a finding and questioned costs related to supporting documentation not provided, but this finding did not result in material questioned costs.

## Attachment B – Management Response



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May 08, 2015

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Washington, DC 20005

RE: Special Inspector General for Afghanistan Reconstruction (SIGAR) Financial Audit of Costs Incurred by AECOM International Development, Inc. under contract number AID-306-C-12-0002 with United States Agency for International Development (USAID) for its Stability in Key Areas (SIKA) East program for the period of December 2, 2011 to August 31, 2014

Dear Williams, Adley & Company:

AECOM International Development accepts finding 2015-01 and agrees to reimburse USAID \$6,928. Records management controls will be reviewed to ensure sufficient supporting documentation for costs claimed is maintained.

## Attachment C – Auditor Response to Management Comments

We believe that the above-mentioned action, if properly implemented, will resolve the condition and address the recommendation.

## SIGAR's Mission

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

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

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