

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 17-38 Financial Audit

USAID's Results Tracking Phase II (SUPPORT II) Program: Audit of Costs Incurred by Checchi and Company Consulting Inc.

On October 18, 2017, the USAID Mission for Afghanistan requested that SIGAR reevaluate a finding within the April 2017 audit report that questioned costs related to a \$4.2 million subcontract. After further review, SIGAR's auditors removed the finding from their report. This is the revised report, reissued on May 10, 2018,

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



May
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 5, 2012, the U.S. Agency for International Development (USAID) awarded a \$52,160,960 contract to Checchi and Company Consulting Inc. (CCCI) to support the Results Tracking Phase II (SUPPORT II) program. The program's objectives were to support and strengthen the USAID Mission for Afghanistan's monitoring and evaluation systems, strategic communications and public information products, and performance management, and to provide support services, such as facilitating workshops, conferences, and meetings for USAID and its implementing partners. The contract's original period of performance was 12 months with 4 option years. However, after 15 modifications, the period of performance was extended to July 4, 2017. The total cost did not change.

SIGAR's financial audit, performed by Mayer Hoffman McCann (MHM), reviewed \$16,215,486 in expenditures charged to the contract from July 1, 2014, through June 30, 2016. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in CCCI'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 CCCI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of CCCI's Special Purpose Financial Statement. See MHM's report for the precise audit objectives.

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

May 2018

USAID's Results Tracking Phase II (SUPPORT II) Program: Audit of Costs Incurred by Checchi and Company Consulting Inc.

SIGAR 17-38-FA

WHAT THE AUDIT FOUND

MHM identified one significant deficiency and three additional deficiencies in CCCI's internal controls, and two instances of noncompliance with the terms and conditions of the contract and other laws and regulations. Most notably, MHM found that CCCI did not have a well-established monitoring process in place for reviewing invoices from its subcontractors.

As a result of these internal control weaknesses and instances of noncompliance, MHM identified \$31 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. MHM did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Travel Charges	\$31	0	\$31
Totals	\$31	0	\$31

MHM reviewed prior audit reports and identified eight findings that were material to this audit. The auditors determined that all eight had been corrected.

MHM issued an unqualified opinion on the fair presentation of CCCI's Special Purpose Financial Statement.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$31 in questioned costs identified in the report.**
2. **Advise CCCI to address the report's four internal control findings.**
3. **Advise CCCI to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 10, 2018

Mr. Mark Green
Administrator, U.S. Agency for International Development

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann (MHM) to audit the costs incurred by Checchi and Company Consulting Inc. (CCCI) under a U.S. Agency for International Development (USAID) contract to support the Results Tracking Phase II (SUPPORT II) program.¹ MHM's audit covered \$16,215,486 in expenditures charged to the contract from July 1, 2014, through June 30, 2016. Our contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. **Determine the allowability of and recover, as appropriate, \$31 in questioned costs identified in the report.**
2. **Advise CCCI to address the report's four internal control findings.**
3. **Advise CCCI to address the report's two noncompliance findings.**

The results of MHM's audit are in the attached report. We reviewed MHM'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 CCCI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of CCCI's internal control or compliance with contract laws and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where MHM did not comply, in all material respects, with U.S. 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-090)

¹ USAID awarded contract number AID-306-C-12-00012 to CCCI to implement the SUPPORT II program. The program's objectives were to support and strengthen the USAID Mission for Afghanistan's monitoring and evaluation systems, strategic communications and public information products, and performance management, and to provide support services.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
Services under Program and Project Office
for Results Tracking Phase II (SUPPORT II)

For the Period July 1, 2014 through June 30, 2016

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

For the Period July 1, 2014 through June 30, 2016

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	2
Objectives, Scope, and Methodology	2
Summary of Results	5
Review of Prior Findings and Recommendations	6
Summary of CCCI's Responses to Findings	6
Independent Auditor's Report on Special Purpose Financial Statement	8
Special Purpose Financial Statement	10
Notes to Special Purpose Financial Statement	11
Notes to Questioned Costs on Special Purpose Financial Statement	13
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	15
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	17
Status of Prior Findings	19
Detailed Audit Findings	21
Appendices:	
Appendix A: CCCI's Responses to Findings	28
Appendix B: Auditor's Rebuttal to CCCI's Responses to Findings	37



Mayer Hoffman McCann P.C.
An Independent CPA Firm

2301 Dupont Drive, Suite 200 ■ Irvine, CA 92612
Main: 949.474.2020 ■ Fax: 949.263.5520 ■ www.mhmcpa.com

March 8, 2018

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, based on an audit of the Special Purpose Financial Statement performed in accordance with *Government Auditing Standards*. 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 CCCI, the Special Inspector General for Afghanistan Reconstruction (SIGAR) and USAID. Management of CCCI has prepared responses to the findings identified during our audit and those responses are included as part of this report. The responses have not been audited and we express no opinion on them.

Sincerely,

Mayer Hoffman McCann P.C.

A handwritten signature in blue ink, appearing to read 'Marcus D. Davis', is written over a horizontal line.

Marcus D. Davis, CPA
Shareholder

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

For the Period July 1, 2014 through June 30, 2016

Background

On July 5, 2012, the United States Agency for International Development ("USAID") awarded Contract No. AID-306-C-12-00012 ("Contract") to Checchi and Company Consulting, Inc. ("CCCI" or "Company") for implementation of the Services under Program and Project Office for Results Tracking Phase II (SUPPORT II) project to improve the efficiency of programs implemented by USAID/Afghanistan's Technical Offices. The Contract was in the original amount of \$52,160,960, and was on a cost plus fixed fee basis (cost consisted of [REDACTED] and the fixed fee was [REDACTED]). The original period of performance consisted of one base year plus four option years. All four option years were exercised, which resulted in a full period of performance of July 5, 2012 through July 4, 2017. The Contract was modified 15 times through June 30, 2016 for reasons such as exercising the option years and adding or modifying contract clauses. Some of the more significant modifications that had an impact on the original Contract are described below:

<u>Modification No.</u>	<u>Effective Date</u>	<u>Significance</u>
3	06/27/13	Exercised option year 1 in the amount of \$9,941,286, which also extended the period of performance to July 4, 2014. The obligated amount of the Contract increased by \$10,000,000. This option increased the total estimated cost plus fixed fee to \$20,591,968 and the total obligated amount to \$17,000,000.
5	05/24/14	Exercised option year 2 in the amount of \$10,226,340, which also extended the period of performance to July 4, 2015. The obligated amount of the Contract was increased by \$6,128,000. This option increased the total estimated cost plus fixed fee to \$30,818,308 and the total obligated amount to \$23,128,000.
9	07/01/15	Exercised option year 3 in the amount of \$10,520,030, which also extended the period of performance to July 4, 2016. The obligated amount of the Contract was increased by \$8,500,000. This option increased the total estimated cost plus fixed fee to \$41,338,338 and the total obligated amount to \$31,628,000.
13	03/21/16	The obligated amount of the Contract was increased by \$3,500,000 to \$35,128,000. The total estimated cost plus fixed fee remained unchanged at \$41,338,338.
15	06/16/16	Exercised option year 4 in the amount of \$10,822,622, which also extended the period of performance to July 4, 2017. This option increased the total estimated cost plus fixed fee to \$52,160,960.

CCCI seeks to accomplish the objectives of the Contract by providing activity/project designs, assessments, evaluations, management information and reporting, mapping, translation and interpretation services. In addition, the Company is required to provide technical assistance to

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

For the Period July 1, 2014 through June 30, 2016

USAID/Afghanistan's Office of Program and Project Development (OPPD) to collect and disseminate public information, enhance the quality of data, and develop web content. SUPPORT II also provides logistical support for USAID and implementing partners to hold conferences, meetings, and workshops. The project is a follow up of the SUPPORT program, which aimed to improve the overall efficiency and effectiveness of USAID/Afghanistan's programs, as well as to improve the information and reporting mechanisms, products and systems.

CCCI, a U.S. company, was incorporated in the State of Delaware in 1973. Since its inception, the Company has completed consulting engagements in 145 countries in Latin America, Africa, Asia, Eastern Europe and the Middle East. CCCI provides technical assistance and training services to promote social and economic development to help better the lives of people in developing and transitional nations. It also works in all phases of the technical assistance project cycle, including needs assessment, design, implementation, and monitoring and evaluation.

Work Performed

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of CCCI's SUPPORT II Special Purpose Financial Statement ("SPFS") for the period July 1, 2014 through June 30, 2016.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (SPFS)* – Express an opinion on whether CCCI's SPFS for the award 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 or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of CCCI's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether CCCI complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

For the Period July 1, 2014 through June 30, 2016

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

Scope

The scope of this audit included all costs incurred during the period July 1, 2014 through June 30, 2016 under the Contract. Our testing of labor overhead was limited to determining that the labor overhead was calculated using the correct final negotiated overhead rate or provisional overhead rate, as applicable for the given fiscal year, as approved by USAID.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on September 28, 2016. Participants included representatives of MHM, CCCI, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of CCCI;
- Reviewed the Contract and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Contract;
- 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 or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

For the Period July 1, 2014 through June 30, 2016

- For accounts that appeared to contain unallowable and restricted items according to the terms of the Contract, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we will test 100% of the transactions.
- For high risk cost categories, we sampled individual transactions greater than \$58,000, not to exceed 50% of the total amount expended for each cost category.
- For medium risk cost categories, we sampled individual transactions greater than \$116,000, not to exceed 20% of the total amount expended for each cost category.
- For low risk cost categories, we individual sampled transactions greater than \$116,000, not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk categories.

If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director 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.

Internal Control Related to the SPFS

We reviewed CCCI's internal controls related to the Contract. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Contract, modifications, and major subcontractors 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.

Corrective Action on Prior Findings and Recommendations

We requested all reports from previous engagements 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 Contract, modifications and general ledger;
- Traced receipt of funds to the accounting records; and

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

For the Period July 1, 2014 through June 30, 2016

- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract and reasonable.

Exit Conference

An exit conference was held on January 25, 2017 via conference call. Participants included MHM, CCCI, 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 CCCI under the Contract with USAID identified the following matters. Findings are classified as either internal control, compliance or a combination of internal control and compliance

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We also identified \$31 of questioned costs under the Task Order. A summary of findings and questioned costs is as follows:

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2017-1	Internal control – deficiency Compliance	Excess reimbursement for travel	\$31	\$31
2017-2	Internal control – deficiency Compliance	Prepaid rent on leased facilities	\$0	\$31
2017-3	Internal control – deficiency	Misclassified expenses	\$0	\$31
2017-4	Internal control – significant deficiency	Subcontractor's fraudulent time reported and billed	\$0	\$31

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

For the Period July 1, 2014 through June 30, 2016

Internal Control Findings

Our audit discovered four internal control findings, consisting of one significant deficiency, and three deficiencies. See Independent Auditor's Report on Internal Control on page 15. The complete management responses from CCCI to each of the internal control findings can be found in Appendix A to this report.

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 Contract 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 two instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 17. The complete management responses from CCCI to each of the compliance findings can be found in Appendix A to this report.

Review of Prior Findings and Recommendations

We requested copies of prior engagements including audits, reviews and evaluations pertinent to CCCI's activities under the Contract. We identified nine findings and recommendations from prior engagements that could have a material effect on the SPFS and reviewed the corrective actions taken to address the findings and recommendations. We tested transactions and determined that CCCI has taken adequate corrective action to address the findings. See the Status of Prior Findings on page 19 for a detailed description of the prior findings and recommendations.

Summary of CCCI's Responses to Findings

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

- Finding Number 2017-1: CCCI disagrees with this finding stating that the dollar amount of questioned costs and number of errors in relation to total transactions is insignificant.
- Finding Number 2017-2: CCCI disagrees with this finding stating that there is no requirement to report costs on an accrual basis.
- Finding Number 2017-3: CCCI disagrees with this finding stating that the travel costs incurred were associated with a specific event and should be considered as other direct costs and not travel.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

For the Period July 1, 2014 through June 30, 2016

- Finding Number 2017-4: CCCI disagrees with this finding stating that the fact that it self-reported a fraudulent activity indicates that it has strong internal controls.



INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Checchi and Company Consulting, Inc.
Washington, DC

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Checchi and Company Consulting, Inc. ("CCCI") under Contract No. AID-306-C-12-00012 ("Contract"), with the United States Agency for International Development ("USAID") to support the Services under Program and Project Offices for Results Tracking Phase II ("SUPPORT II") project for the period July, 1, 2014 and June 30, 2016, 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.

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 CCCI under the Contract for the period July 1, 2014 through June 30, 2016 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of Checchi and Company Consulting, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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 March 30, 2017 on our consideration of CCCI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCI's internal control over financial reporting and compliance.



Irvine, California
March 30, 2017

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under

Contract No. AID-306-C-12-00012

SUPPORT II

Special Purpose Financial Statement

July 1, 2014 through June 30, 2016

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-306-C-12-00012	██████████	██████████	\$ -	\$ -	\$ -	(3)
Total revenues	██████████	██████████	-	-	-	
Costs incurred:						
Salaries and wages	██████████	██████████	-	-	-	
Labor overhead and fringe benefits	██████████	██████████	-	-	-	
Consultants	██████████	██████████	-	-	-	
Allowances	██████████	██████████	-	-	-	
Travel, transportation and per diem	██████████	██████████	29	(14,343)	(14,314)	(A)
Subcontracts	██████████	██████████	-	-	-	
Equipment and supplies	██████████	██████████	-	-	-	
Direct facilities cost	██████████	██████████	-	-	-	
Other direct costs	██████████	██████████	-	14,343	14,343	(B)
Security – armed guards, weapons	██████████	██████████	-	-	-	
Security – other	██████████	██████████	-	-	-	
Total costs incurred	19,830,663	15,465,833	29	-	29	
Fixed fee	██████████	██████████	2	-	2	(6), (C)
Total costs incurred plus fixed fee	██████████	██████████	31	-	31	
Outstanding fund balance	\$ -	\$ -	\$ (31)	\$ -	\$ (31)	(7), (D)

See Notes to Special Purpose Financial Statement
and Notes to Questions Costs Presented on Special Purpose Financial Statement

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

Notes to Special Purpose Financial Statement¹

For the Period July 1, 2014 through June 30, 2016

(1) Background

On July 5, 2012, the United States Agency for International Development ("USAID") awarded Contract No. AID-306-C-12-00012 (the "Contract") to Checchi and Company Consulting, Inc. ("CCCI") for the implementation of the Services under Program and Project Offices for Results Tracking Phase II ("SUPPORT II") project to support improvements to the quality of healthcare in USAID-assisted countries.

The Contract was in the original amount of \$52,160,960, and was on a cost plus fixed fee basis (cost consisted of [REDACTED] and the fixed fee was [REDACTED]). The original period of performance consisted of one base year plus four option years. All four option years were exercised, which resulted in a full period of performance of July 5, 2012 through July 4, 2017.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for SUPPORT II under the Contract for the period July 1, 2014 through June 30, 2016. Because the SPFS presents only a selected portion of the operations of CCCI, it is not intended to and does not present the financial position, changes in financial position, or cash flows of CCCI. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract.

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation Part 31 – *Contracts with Commercial Organizations*.

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of CCCI. CCCI converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by using the current exchange rate obtained from the local Afghan bank.

¹The Notes to Special Purpose Financial Statement are the responsibility of CCCI.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Notes to Special Purpose Financial Statement

(Continued)

(3) **Revenue**

As of June 30, 2016, CCCI has reported [REDACTED] in revenue. This revenue equals the expenditures invoiced to USAID for the period July 1, 2014 through June 30, 2016.

(4) **Costs incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the USAID-approved budget for option years 2 and 3.

(5) **Indirect Cost**

CCCI's negotiated indirect cost rates were approved by USAID on February 5, 2015. [REDACTED]

[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	

(6) **Fixed Fee**

For the period July 1, 2014 through June 30, 2016, CCCI's contracted fixed fee was [REDACTED]. The fixed fee is invoiced to USAID at the rate of [REDACTED] of total costs, less security-related subcontracts, plus [REDACTED] of security-related subcontracts.

(7) **Outstanding Fund Balance**

As of June 30, 2016, there was no outstanding fund balance under the Agreement as the SPFS is prepared under the accrual basis of accounting described in Note 2.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

Notes to Questioned Costs Presented on Special Purpose Financial Statement²

For the Period July 1, 2014 through June 30, 2016

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Contract and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(A) Travel, Transportation and Per Diem

CCCI reported travel costs in the amount of [REDACTED] for the period July 1, 2014 through June 30, 2016. During our audit of these costs, we noted one instance in which travel costs were reimbursed to a consultant for \$29 in excess of the actual cost incurred, resulting in \$29 of ineligible costs. See Finding 2017-1. Also see Note C for the associated fixed fee. Additionally, as described in Note B, CCCI misclassified \$14,343 of travel, transportation and per diem costs as other direct costs.

(B) Other Direct Costs

CCCI reported other direct costs in the amount of [REDACTED] for the period July 1, 2014 through June 30, 2016. During our audit of these costs, we identified \$14,343 of travel, transportation and per diem costs that were misclassified as other direct costs. See Finding 2017-3.

(C) Fixed Fee

CCCI reported fixed fee in the amount of [REDACTED] for the period July 1, 2014 through June 30, 2016. The fixed fee was incurred at the rate of [REDACTED] for total costs less security-related subcontracts, plus [REDACTED] for security-related subcontracts. The fixed fee rate was applied to the associated questioned costs identified in Notes A and B, resulting in the following questioned indirect costs.

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>
Ineligible costs:		
2017-1	Fixed fee applied to travel	\$ <u>2</u>
Total ineligible costs		<u>2</u>
Total questioned fixed fee		\$ <u>2</u>

²The Notes to Questioned Costs on presented on the Special Purpose Financial Statement were prepared by the auditor for information purposes only and as such are not part of the audited Special Purpose Financial Statement.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

(D) Outstanding Fund Balance

The total outstanding fund balance as of June 30, 2016 in the amount of \$31 represents the total questioned costs, consisting of \$31 of ineligible costs.



**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

Board of Directors
Checchi and Company Consulting, Inc.
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Checchi and Company Consulting, Inc. ("CCCI") representing revenues received and costs incurred under Contract No. AID-306-C-12-00012, with the United States Agency for International Development ("USAID") to support the Services under Program and Project Offices for Results Tracking Phase II ("SUPPORT II") project for the period July 1, 2014 through June 30, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated March 30, 2017. 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.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered CCCI's internal control over financial reporting (internal control) to determine the audit procedures that were 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 CCCI's internal control. Accordingly, we do not express an opinion on the effectiveness of CCCI'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Detailed Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, significant deficiencies and deficiencies.

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. We consider the deficiencies described in the accompanying Detailed Audit Findings as Findings 2017-1, 2017-2 and 2017-3 to meet this definition.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Detailed Audit Findings as Finding 2017-4 to meet this definition.

CCCI's Response to Findings

CCCI's response to the findings identified in our audit is included verbatim in Appendix A. CCCI's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of CCCI'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.

This report is intended for the information of Checchi and Company Consulting, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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.



Irvine, California
March 30, 2017



**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

Board of Directors
Checchi and Company Consulting, Inc.
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Checchi and Company Consulting, Inc. ("CCCI"), representing revenues received and costs incurred under Contract No. AID-306-C-12-00012 ("Contract"), with the United States Agency for International Development ("USAID") to support the Services under Program and Project Offices for Results Tracking Phase II ("SUPPORT II") project for the period July 1, 2014 through June 30, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated March 30, 2017. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCI's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of Special Purpose Financial Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed two 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 Findings 2017-1 and 2017-2.

CCCI's Response to Findings

CCCI's response to the findings identified in our audit is included verbatim in Appendix A. CCCI's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information of Checchi and Company Consulting, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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.



Irvine, California
March 30, 2017

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Status of Prior Findings

For the Period July 1, 2014 through June 30, 2016

We requested copies of prior engagements including audits, reviews and evaluations pertinent to CCCI's activities under the program. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were two prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified nine findings with a potential material effect on the SPFS and/or control deficiencies effect on the Contract. Based on our review, adequate corrective actions were implemented on eight of the nine prior findings.

Financial and Close-out Audit of the Costs Incurred under the Following USAID/Afghanistan Funded Projects: 1) Services Under Program project Offices for Results Tracking (SUPPORT II); 2) Rule of Law Stabilization-Informal Component – Audit Performed by Davis and Associates, Certified Public Accountants, PLLC

The audit identified one instance of a cost that was not accompanied by an invoice or documentation pertaining to the payment of the expense. During our testing of transactions charged to the Contract, all transactions were adequately supported by an invoice or other applicable form of documentation. As such, the corrective action has been adequately implemented.

SIGAR 14-9 Financial Audit of USAID's Afghanistan Rule of Law-Informal (ARL-I) Project and Services Under Program and Project Offices for Results Tracking (SUPPORT) project – Audit Performed by Crowe Horwath

There were eight prior findings and recommendations identified in SIGAR's 14-9 financial audit performed by Crowe Horwath. The period covered by the audit was October 9, 2006 through August 27, 2012. Based upon our review, adequate corrective action was taken on the eight findings and recommendations as described below.

- (1) The auditors noted that the procurement process lacked supporting documentation, cost-price analyses, and/or evidence of competitive procedures for nine subcontractors tested. Therefore, a determination that costs incurred were reasonable could not be made. We reviewed procurement procedures over subcontractors and noted no instances of noncompliance. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that CCCI did not have an adequate inventory management system and duplicate items were tracked in the inventory that were undetected during their review process. We reviewed the inventory and found all elements to be present and no duplicate items. As such, the corrective action has been adequately implemented.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under Contract No. AID-306-C-12-00012 SUPPORT II

Status of Prior Findings

(Continued)

- (3) The auditors noted that payments to subcontractors were not made timely in two instances. CCCI has established procedures that set specific timelines for when subcontractors are reimbursed. As such, the corrective action has been adequately implemented.
- (4) The auditors noted that 15 out of 18 procurements tested did not contain required approvals authorizing the procurement. During testing of transactions, we noted no instances in which adequate approvals were not documented. As such, the corrective action has been adequately implemented.
- (5) The auditors noted that seven out of 15 contracts tested that exceeded the simplified acquisition threshold should have included notification to the Office of Small and Disadvantaged Business Utilization (OSDBU). CCCI modified its Procurement Policy Manual to include this notification requirement. As such, the corrective action has been adequately implemented.
- (6) The auditors noted that CCCI transferred property purchased under the ARL-I task order to a new project without obtaining prior written approval of the cooperating country, the Contracting Officer Representative, or the Contracting Officer. CCCI has modified its policy on disposal of property per USAID instructions. We tested to ensure that prior approvals were obtained prior to transfer of an asset. No exceptions were noted. As such, the corrective action has been adequately implemented.
- (7) No evidence was provided to the auditors to support that background checks and Excluded Party List System (EPLS) checks were performed for any vendors in the procurement sample. During our testing, we reviewed to ensure that background checks and System for Award Management (SAM) checks were performed to identify excluded vendors. No exceptions were noted. As such, the corrective action has been adequately implemented.
- (8) The auditors noted that there was inconsistent evidence that management reviewed financial information per its established internal controls. During our testing, we noted the presence of initials evidencing management review of financial transactions and reports. No exceptions were noted. As such, the corrective action has been adequately implemented.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

For the Period July 1, 2014 through June 30, 2016

Finding Number 2017-1: Excess Reimbursement for Travel

Nature of Finding:

Internal control – deficiency
Compliance

Condition:

CCCI reimbursed a consultant for eligible travel expenses at an amount in excess of the supporting documentation. Receipts submitted by one consultant for reimbursement of travel from Afghanistan to London, England totaled \$536. However, the consultant was reimbursed \$565, resulting in an overpayment to the consultant, as well as an overbilling to USAID/Afghanistan under the Contract, in the amount of \$29.

Criteria:

48 CFR 52.216-7, *Allowable costs and payment*, states, in part:

“(a) Invoicing. (1) The Government will make payments to the Contractor when requested as work progresses...in amounts determined to be allowable by the Contracting Officer in accordance with Federal Acquisition Regulation (FAR) subpart 31.2 in effect on the date of this contract and the terms of this contract...”

Additionally, 48 CFR 31.205-46, *Travel costs*, states, in part:

“(a) Costs for transportation, lodging, meals, and incidental expenses. (1) Costs incurred by contractor personnel on official company business are allowable...Costs for transportation may be based on mileage rates, actual costs incurred, or on a combination thereof, provided the method used results in a reasonable charge....”

CCCI's Policies and Procedures Manual, July 5, 2015, Section IV, *Office Administration*, Subsection A, *Travel Policies*, Paragraph 3, *Travel Expenses (M&IE and Lodging)*, states, in part:

“...Lodging and transportation expenses outside of Kabul will be reimbursed at actual cost up to the USAID maximum for lodging and must be SUPPORT-Iled by original receipts and boarding passes in the case of air transportation. In the case of authorized international travel, U.S. Government per diem (M&IE and maximum lodging) rates will apply....”

Cause:

CCCI miscalculated the amount of reimbursement due to the consultant due to human error.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

(Continued)

Effect:

Weaknesses in internal controls over the accuracy of billing could permit additional errors to go unnoticed and the government to be overcharged.

Questioned Costs:

Total questioned travel, transportation and per diem costs, including the associated fixed fee, is as follows:

	<u>Questioned Costs</u>
Travel, transportation and per diem	\$29
Fixed fee (██████████)	<u>2</u>
Total questioned costs	<u>\$31</u>

Recommendation:

- (1) We recommend that CCCI return \$29 to USAID for excess travel costs charged to the Contract.
- (2) We recommend that CCCI modify its policies and procedures and increase supervision or oversight of the travel reimbursement process, and provide training to its employees to ensure that requests for travel reimbursement are accurate prior to payment.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

(Continued)

Finding Number 2017-2: Prepaid Rent on Leased Facilities

Nature of Finding:

Internal control – deficiency
Compliance

Condition:

CCCI leased its facilities in Kabul, Afghanistan. The monthly lease payments were paid in advance for a period of one year and charged in full to the Contract at the time they were paid. CCCI occupied and used the facilities for the entire year. CCCI maintains its accounting records and prepared the SPFS on the accrual basis of accounting. Under the accrual basis of accounting, the lease payments made in advance should have been recorded as a prepaid expense, then subsequently recognized on a monthly basis throughout the period of the lease. The lease expense would then have been charged to the Contract on a monthly basis.

Criteria:

22 CFR 226.21, Standards for financial management systems, states in part:

“...(b) Recipients’ financial management systems shall provide for the following.

(1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in §226.52. While USAID requires reporting on an accrual basis, if the recipient maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for their reports on the basis of an analysis of the documentation on hand...”

Cause:

CCCI indicated it is common practice to prepay rent in Afghanistan to the lessee as rent is negotiated at a less expensive rate for pre-payment, and the lessee wants a guarantee of payment for the longevity of the lease.

Effect:

There is no issue with prepaying rent. However, charging lease payments to the Contract in advance of when they are incurred could result in unallowable costs. In a hostile environment, charging rent as it is incurred is critical in order to ensure funds expended were reasonable, allowable, allocable and in accordance with federal regulations.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

(Continued)

Questioned Costs:

None as the entire rent was incurred.

Recommendation:

We recommend that CCCI modify its policies and procedures to charge rent to the Contract on the accrual basis of accounting as required by federal regulations.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

(Continued)

Finding Number 2017-3: Misclassified Expenses

Nature of Finding:

Internal control – deficiency

Condition:

CCCI misclassified \$14,343 of travel expenses and reported those expenses as other direct costs on the SPFS.

Criteria:

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...”

Cause:

This condition occurred due to a lack of adequate management oversight over the recording and posting of transactions.

Effect:

The inaccurate classification of expenses can result in the inaccurate reporting of costs by cost category, which can undermine the budgetary controls in place per the Contract.

Questioned Costs:

No costs were questioned as a result of this finding as the costs were properly supported, allowable and allocable to the Contract.

Recommendation:

We recommend that CCCI modify its policies and procedures and provide training to management regarding what is required to be looked at to ensure transactions are properly coded and reported in the correct cost category.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

(Continued)

Finding Number 2017-4: Subcontractor's Fraudulent Time Reported and Billed

Nature of Finding:

Internal control – significant deficiency

Condition:

CCCI self-reported a fraudulent incident by one of its subcontractors, Social Development & Legal Rights (SDLR), in July 2016. SDLR provided monitoring and verification services to the SUPPORT II project. During the two option years, SDLR billed at a rate for the services that was significantly greater than the actual compensated labor rate. SDLR provided CCCI with fraudulent labor support for its billings. CCCI identified a total of \$89,494 in excess billings to USAID as a result of this incident, and immediately credited the amount to USAID in August 2016. CCCI also terminated its subcontract with SDLR on July 4, 2016.

Criteria:

CCCI's Procurement Policy Manual, April 2015, *Procurement Activity Requirements*, states, in part:

“...Checchi must ensure that...the subcontractor's accounting system and internal controls are adequate...”

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...”

48 CFR 31.201-4, *Application of principles and procedures*, states, in part:

“(a) Costs are allowable to the extent they are reasonable, allocable, and determined to be allowable...”

“(b)(1) For the following subcontract types, costs incurred as reimbursements or payments to a subcontractor are allowable to the extent the reimbursements or payments are for costs incurred by the subcontractor...”

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Detailed Audit Findings

(Continued)

Cause:

CCCI did not have a well-established process in place for reviewing invoices from subcontractors in a timely manner to ensure payments are made for services actually performed and in accordance with the terms of the subcontract.

Effect:

USAID reimbursed CCCI for costs that were greater than those necessary for the services rendered, thus reducing funds available for other project-related activities.

Questioned Costs:

No costs were questioned as CCCI self-reported the fraudulent activity and immediately credited USAID on its next billing for the amount of the fraud.

Recommendation:

We recommend that CCCI provide training to its employees as to the requirements to timely review invoices from subcontractors to ensure payments are made only for services rendered and at contracted rates.



CHECCHI AND COMPANY CONSULTING, INC.
 1899 L Street, NW, Suite 800, Washington, DC 20036
 Tel: 202-452-9700 | Fax: 202-466-9070 | www.checchiconsulting.com | checchi@checchiconsulting.com

March 17, 2017

Mayer Hoffman McCann P.C.
 2301 Dupont Drive, Suite 200
 Irvine, CA 92612

Subject: Response to Draft Audit Report Prepared by Mayer Hoffman McCann P.C.,
 Regarding Contract No. AID-306-C-12-00012

Dear Sir or Madam:

This letter presents Checchi and Company Consulting, Inc.'s (CCCI) comments and response to the Draft Audit Report ("Draft Report") authored by Mayer Hoffman McCann, P.C. (MHM) and provided to CCCI on Friday, March 3, 2017. CCCI understands the importance and value of properly conducted audits and appreciates the opportunity to comment on the Draft Report. We are providing these comments and response to the Draft Report by March 17, 2017, as instructed. CCCI prepared these comments and response with the assistance of Robert K. Tompkins and Lynne M. Halbrooks of Holland & Knight, LLP. We request you attach this letter to any final report.

Introduction and Summary of Response

The Draft Report presents as the basis for a qualified opinion MHM's identification of \$4,174,695 in questioned costs, which MHM alleges relate to a lack of evidence of competitive bidding. However, MHM applies the wrong criteria in support of this finding and its conclusion is not supported by applicable law or regulation. Specifically, MHM asserts that CCCI failed to follow its "Procurement Policy Manual" in the hiring of individuals as consultants; however, such individual consultants are not subcontractors and are not subject to CCCI's Procurement Policy Manual. MHM also incorrectly asserts that United States Agency for International Development (USAID) regulations related to assistance agreements apply to this federal procurement contract; they do not. When the proper criteria are applied, there is no compliance or internal control deficiency, nor is there a basis to question the costs.

Only one of the five findings in the Draft Report (Finding 2017-5) is considered by MHM to rise to the level of an internal control material weakness. CCCI strongly refutes this conclusion and MHM's basis for it. The identification of the fraudulent labor billing practice by our subcontractor was detected as a result of effective internal controls and was self-reported by CCCI.

Based on the analysis set forth below, we request MHM revise its findings and recommendations and issue an unqualified opinion.

Background

As noted in the Draft Report, USAID awarded Contract No. AID-306-C-12-00012 (the “Contract”) to CCCI on July 5, 2012. The Contract calls for CCCI to provide implementation of the Services under Program and Project Office for Results Tracking Phase II (“SUPPORT II”) program, which is designed to improve the efficiency of programs implemented by USAID/Afghanistan’s Technical Offices.

CCCI generally agrees with the Background provided in the Draft Report, but notes the following omissions and errors:

- The Draft Report Background fails to mention that the Contract is a federal procurement contract, subject to the Federal Acquisition Regulation (Title 48, Code of Federal Regulations). The ramifications of this omission are discussed in detail below.
- While the Draft Report Background correctly observes that option year 4 added \$10,822,622 in funding to the \$41,338,338 contract amount, it fails to add these numbers together and recognize that the total estimated cost plus fixed-fee under the contract is \$52,160,960, not \$41,338,338.
- The Draft Background incorrectly states that the contract’s anticipated costs totaled [REDACTED]. In fact, they were [REDACTED].

Exchanges between CCCI and MHM

CCCI appreciates the extensive communications that have occurred between CCCI and MHM through the course of this audit process. To summarize, these communications and exchanges consisted of the following:

- On September 22, 2016, MHM auditors sent CCCI an Audit Notification Letter and requested that CCCI provide a number of documents to facilitate its audit by October 7.
- On September 28, 2016, MHM and CCCI held an entrance meeting and discussed, among other things, the scope of the audit and impending fieldwork.
- On December 8, 2016, MHM asserted that 22 CFR Part 226 could play a role in the audit findings and sent the regulations to CCCI via e-mail.
- On December 23, 2016, CCCI sent MHM a number of documents in response to open audit items to facilitate speedy and accurate resolution of the audit process. This included, for example, statements from CCCI as to why 22 CFR Part 226 does not apply to the Contract.
- On January 9, 2017, CCCI and MHM had a preliminary exit conference to review the outstanding questions or concerns MHM had before drafting its audit report. During this preliminary exit conference, MHM requested biographical data sheets, CVs, and

Contracting Officer approvals for certain consultants performing under the Contract, which CCCI provided the next day.

- On January 13, 2017, MHM sent CCCI updated audit findings.
- On January 25, 2017, MHM and CCCI held an exit conference.
- On March 3, 2017, CCCI received the Draft Report, addressed herein.

Summary of Findings and CCCI's Response

The Draft Report presented five (5) separate findings. Each finding, and CCCI's response to it, is discussed in greater detail in the sections below.

1. Finding 2017-1: "Lack of Evidence of Competitive Bidding"; Questioned Costs: \$4,174,695

The Draft Report alleges there is a "lack of evidence of competitive bidding" with respect to CCCI's hiring of consultants who provided professional and/or personal services under the Contract. The Draft Report asserts that this finding represents a "significant deficiency" in CCCI's internal controls. Based on this finding, the Draft Report questioned \$4,174,695 in costs under the Contract, which is comprised of \$2,882,052 in direct costs, \$1,075,005 in indirect costs, and a [REDACTED] fee totaling \$217,638.

The Draft Report asserts that, in hiring consultants, CCCI failed to follow the requirements of its own Procurement Policy Manual, and that CCCI failed to follow certain USAID regulations requiring the use of competitive procurement under assistance agreements (i.e. grants and cooperative agreements). Both assertions are without basis.

1. CCCI's Procurement Policy Manual does not apply to the hiring of individual consultants.

First, the Draft Report cites CCCI's Procurement Policy Manual to support its assertion that CCCI was required to use "competitive bids" for each consultant position. CCCI's Procurement Policy Manual applies to the selection of vendors and subcontractors over certain dollar thresholds. Consultants are not subcontractors or vendors, and thus CCCI's Procurement Policy Manual does not apply to the hiring of individual consultants.

The distinction between subcontractors and individual consultants is reinforced through federal regulation and procurement law. Specifically, the Federal Acquisition Regulation (FAR)—which, as discussed below, governs the Contract—differentiates between subcontractors and consultants. Under the FAR, subcontractors generally include those who furnish supplies or services to or for a prime contractor or other subcontractors. *See* FAR 3.502-1; *see also* FAR 44.101.

By contrast, the FAR separately defines consultants as individuals who are members of a particular profession or who possess a special skill that provide services to a contractor, but are not officers or employees of the contractor. FAR 31.205-33(a). The individuals hired by CCCI were retained to

provide personal and professional services. Many of CCCI's consultants were members of a particular profession, a number possessed advanced degrees, and almost all had special skills. Accordingly, these individuals fall within the FAR's definition of "consultant," and are not subcontractors either under the FAR or within the scope of CCCI's Procurement Policy Manual.

The conclusion that CCCI's consultants are not subcontractors subject to the Procurement Policy Manual is further clarified by CCCI's distinct methods for hiring consultants versus those it uses in hiring subcontractors. CCCI hires consultants in accordance with long-established practices that match industry standards. First, CCCI determines if any consultants who have successfully worked with CCCI in the past are available to meet USAID's needs. CCCI also searches available databases and advertises positions online, then screens potential applicants. After a consultant is identified, CCCI enters into a consulting agreement with the person. The agreement states that the consultant is being engaged as a short-term specialist. CCCI provides consultants with all necessary management and logistical support, as well as insurance. Subcontractors, in contrast, are hired to produce and supply specific goods and services. They are responsible for all costs associated with these goods and services, including travel, per diem, other direct costs, and any indirect costs or fees.

2. *The Draft Report erroneously applies USAID regulations related to Assistance Agreements to this procurement contract.*

In support of its Finding 2017-1, the Draft Report cites three different sections of Part 226 of the USAID regulations found in Title 22 of the Code of Federal Regulations. First, the Draft Report cites to 22 CFR 226.43, *Competition*, which purports to require that all "procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition..." The Draft Report then cites two additional USAID regulations: 22 CFR 226.46, *Procurement Records*, and 22 CFR 226.53, *Retention and Access Requirements for Records*, to support its claim that CCCI did not adequately document its basis for not conducting a competition for consulting services. Based on these regulations, the Draft Report asserts that CCCI "did not comply with federal regulations to obtain and/or retain competitive bids, or document the justification for a sole source award." The Draft Report's findings and reliance on the regulations cited are in error.

Former Part 226 of Title 22 Code of Federal Regulations was entitled: "Administration of Assistance Awards to U.S. Non-Governmental Organizations."¹ By its express terms, Part 226 applied only to "assistance" agreements, meaning grants and cooperative agreements. 22 CFR 226.1 ("this part establishes uniform administrative requirements for grants and cooperative agreements awarded by USAID"). Assistance agreements, namely grants and cooperative

¹ Part 226 was repealed on December 19, 2014. 79 Fed. Reg. 75,871-01 (Dec. 19, 2014). Previously, there were eight different OMB circulars containing administrative requirements, cost principles, and/or audit requirements for federal assistance agreements, and agencies had their own regulations applicable to federal assistance awards. All eight of the OMB circulars were superseded and consolidated through 2013 OMB guidance. 78 Fed. Reg. 78,590 (Dec. 26, 2013). The 2014 rulemaking that repealed 22 CFR Part 226 similarly repealed agency-specific assistance award regulations and created government-wide assistance award regulations at 2 CFR Part 200. Notably, the regulations from 22 CFR §226.43 that are cited in Finding 2017-1 of the Draft Report were substantively transferred to 22 CFR Part 200, Subpart D. However, 22 CFR Part 200, Subpart D expressly does not apply to "[p]rocurement contracts awarded by Federal Agencies under the Federal Acquisition Regulation and subcontracts under those contracts." 2 CFR §200.101.

agreements, are distinct from procurement contracts as a matter of law. *See Federal Grant and Cooperative Agreement Act*, 31 USC 6301, *et seq.* The Contract here is a procurement contract, not an assistance agreement. The distinction is essential.

Because this is a procurement contract, the provisions of former Part 226, as well as its successor regulation, do not apply to CCCI or this Contract. Rather, as the U.S. Court of Appeals for the Federal Circuit has noted: “[w]hen using a procurement contract, an agency must adhere to federal procurement laws, including the Competition in Contracting Act (CICA), 41 U.S.C. § 3301, as well as the Federal Acquisition Regulation (FAR).” *CMS Contract Mgmt. Servs. v. Massachusetts Hous. Fin. Agency*, 745 F.3d 1379, 1381 (Fed. Cir. 2014).

Unlike Part 226, the FAR does not contain any requirement that prime contractors obtain “competitive bids” when hiring consultants. Because there is no federal regulation requiring the use of competitive “bids” here, the Draft Report’s finding that CCCI failed to follow federal regulations is legally baseless.

The FAR provides that costs incurred and submitted to the Government must be allowable and allocable. *See* FAR 31.201-2; *see also* FAR 31.201-4. To be allowable, costs also must be “reasonable.” FAR 31.201-2(a). Whether costs are reasonable can be determined through any number of well-accepted methods. While competitive bidding is one such method, it is not the only method.²

In this case, CCCI confirmed that its consultant costs were reasonable using the methods discussed below and the hiring process discussed above. The Agency reviewed and accepted those costs and the associated approach.

CCCI’s consultants under the Contract fall into two categories: expatriate consultants who are U.S. citizens or Third Country Nationals, and local consultants who are citizens and residents of Afghanistan.

With respect to its expatriate consultants, CCCI obtained and verified salary history information from those individuals by requiring them to complete and certify a biographical data sheet (AID 1420-17). CCCI based the proposed daily rate for each consultant on this salary history information, offering in some cases a rate increase of up to 5% but in no case exceeding the prevailing “Senior Executive Service (SES) maximum daily rate”, and submitted the proposed daily rate along with the consultant’s “CV” and completed biographical data sheet to the Contracting Officer for approval. The Contracting Officer, upon receipt of such submissions, approved each expatriate consultant’s compensation.

With respect to local consultants, USAID (in conjunction with the State Department) develops and maintains Mission Local Employee Compensation Plans (LECPs) for certain countries and areas in which USAID operates. USAID has developed and maintains such an LECP for Afghanistan. The

² Other methods include, but are not limited to: (1) comparing prices with those obtained through market research for the same or similar items; (2) comparing offered prices with competitive published price lists or market prices; (3) comparing the proposed prices to historical prices paid for the same or similar items; or (4) analysis of data other than certified cost and pricing data provided by the contractor. FAR 15.404-1(b)(2).

LECP sets compensation rates for foreign service national employees, which are based on prevailing wage rates and compensation plans in the locality of employment. In accordance with the State Department's Foreign Affairs Manual, LECP rates are set and, where appropriate, revised based on local salary surveys. 3 FAM 7515; 3 FAM 7522. USAID usually makes the LECP available to contractors and others. As a matter of practice, USAID accepts compensation costs related to local consultants as reasonable so long as their compensation is at or below the LECP levels. *See* AIDAR 702.170-5.

In selecting local consultants, CCCI obtained and verified salary history information as with expatriate consultants, but also considered the LECP and ensured that each local consultant's compensation stayed within the limits of the LECP. Though CCCI did not expressly inform USAID of the fact that local consultant compensation fell below the LECP, USAID was implicitly informed of such in two ways. First, USAID issued guidance to CCCI stating that Contracting Officer approval was only required for local consultants whose salaries were higher than the LECP maximum rate. Second, CCCI submitted consultant names and compensation information through invoices.

In the case of both types of consultant, CCCI's methods (collecting past compensation information and ensuring that proposed compensation for local consultants did not exceed the prevailing wages set forth in the LECP) meet FAR requirements for establishing the reasonableness of each consultant's compensation. Under the FAR, price reasonableness can be established by comparing proposed prices to historical prices paid for similar services (whether by the Government or other than the Government). FAR 15.404-1(b)(2)(ii). This is exactly what CCCI did for expatriate consultant compensation by obtaining and verifying salary histories and using these salary histories to establish consultant daily rates. The FAR also allows price reasonableness to be established by comparing proposed prices to market prices for similar services. FAR 15.404-1(b)(2)(vi). CCCI essentially compared local consultant salaries to market prices by ensuring that these salaries were under—and thus in line with—the market salaries established through the LECP.

3. *Finding 2017-1 does not demonstrate a failure to meet prior audit recommendations.*

Relying on Finding 2017-1, the Draft Report asserts that CCCI has failed to address a recommendation from a prior audit conducted by Crowe Horwath of the predecessor contract to this Contract, covering the period 2006 through 2012. The Crowe Horwath auditors asserted that CCCI's procurement process lacked supporting documentation, cost-price analysis, and/or evidence of competitive procedures for nine subcontractors tested.

The Crowe Horwath finding and recommendation in question related explicitly to subcontractors, not individual consultants. As discussed above, consultants and subcontractors are fundamentally distinct. CCCI's hiring of individual consultants did not trigger any issues regarding the Crowe Horwath audit, and the Draft Report's assertion that CCCI has failed to implement prior corrective action is without basis.

Conclusion: The Draft Report's Finding 2017-1 lacks any legal basis and should be withdrawn. MHM's application of the wrong regulation to CCCI's Contract is a failure to identify the proper

criteria and it renders MHM's finding invalid. There is no basis to question CCCI's consultant costs and the condition identified by MHM does not rise to the level of an internal control significant deficiency. For these reasons, there is no basis for implementing the recommendations.

2. Finding 2017-2: Excess Reimbursement for Travel; Questioned Costs: \$31.

The Draft Report asserts that as a result of "human error", CCCI miscalculated the amount of reimbursement due a consultant for travel expenses, resulting in a \$29 overpayment to the consultant. The Draft Report questions this cost and the \$2 of fee associated with it for a total of \$31.

Significantly, after MHM's thorough review of all of CCCI's records regarding its reimbursement of employee and consultant expenses, which were millions of dollars, it uncovered only one error totaling an overpayment of \$29. Though there are a number of common "rules of thumb" for determining the materiality of accounting errors—that is, whether accounting errors are large enough to be considered important—under almost all of them \$29 of overbilling on millions of dollars would be deemed immaterial.

Conclusion: CCCI disagrees with the Draft Report's conclusion that a \$31 travel overpayment constitutes an internal controls deficiency. CCCI does not believe implementing the recommendations are necessary. That said, CCCI is willing to refund the \$29 to USAID along with the associated \$2 fee.

3. Finding 2017-3: Prepaid Rent on Leased Facilities; Questioned Costs: \$0

The Draft Report alleges that CCCI erred by charging prepaid rent costs to the Contract when the costs arose rather than charging them to the Contract on a monthly basis. As CCCI informed MHM multiple times throughout the auditing process (and as the auditors observed), it is standard practice in Afghanistan for landlords to require upfront payment of all rent due for the entire rental period. According to the Draft Report, charging the costs to the contract on a monthly basis is "consistent with federal regulations." In reaching its conclusion, the Draft Report erroneously relies on a now-repealed recordkeeping regulation (22 CFR §226.21)³ that applies to assistance agreements. As previously discussed, 22 CFR Part 226, including 22 CFR §226.21, does not apply to the Contract.

The FAR contract cost principles and procedure regulations, FAR Part 31, make no reference to a requirement for the accrual method of accounting or recordkeeping, as was the case with 22 CFR §226.21. Rather, with regard to accounting and maintaining related records, the FAR says that:

"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

³ It is worth noting that, before its repeal, 22 CFR 226.21 was a regulation that established how recipients of USAID assistance awards should maintain records. It did not address when payments were properly submitted, and made no mention of whether costs were or were not allowable.

contract, and comply with applicable cost principles in this subpart and agency supplements.” FAR 31.201-2(d).

This provision—which the Draft Report cites in discussing Finding 2017-4, though failed to include in relevant part when discussing Finding 2017-3—provides contractors a degree of discretion in their accounting and methods of maintaining related records.

Further, the standard FAR cost and payments clause that is incorporated into the Contract expressly permits reimbursement of allowable, allocable costs that, at the time of the request for reimbursement, the contractor has paid for items or services purchased directly for the contract. FAR 52.216-7(b). Under this provision, CCCI could properly invoice the Government for costs that it prepaid for rent, so long as these costs were allowable and allocable. This is because these were costs that CCCI had paid to lease property for office space and for employees and consultants to live in during Contract performance.

Conclusion: For the reasons set forth above, CCCI disagrees with the Finding and the Draft Report’s conclusion that prepaying rent on leased facilities presents a compliance issue and constitutes an internal control deficiency. As with Finding 2017-1, MHM’s application of the wrong regulation to CCCI’s procurement contract is a failure to identify the proper criteria and it renders MHM’s finding invalid. For these same reasons, there is no basis for the recommendation.

4. Finding 2017-4: Misclassified Expenses; Questioned Costs: \$0

The Draft Report alleges that CCCI misclassified \$14,343 of travel expenses and reported them as other direct costs during the auditing process. In reaching its conclusion, MHM merely cites to FAR 31.201-2(d), quoted above, without additional insight or analysis regarding why it believes CCCI misclassified travel expenses as other direct costs.

As CCCI explained to MHM in the course of the audit process, for budgeting purposes it is CCCI’s practice to categorize all out-of-pocket costs associated with specific conferences and events, including travel costs, as Program Activities under the other direct cost line item. CCCI stated in the budget notes of the SUPPORT II proposal that in-country costs for travel covered only “the cost of transportation and per diem expenses for field staff traveling within Afghanistan for project management and supervision purposes ...”. CCCI incurred the travel expenses cited in the Draft Report as part of a specific event, not project management or supervision.

FAR 31.201-2(d) provides contractors with a degree of discretion in accounting for costs appropriately and maintaining related records. CCCI’s practice of categorizing all out-of-pocket costs associated with specific events, including travel costs, as Program Activities does not conflict with FAR 31.201-2(d) and is a reasonable exercise of CCCI’s discretion.

Conclusion: CCCI disagrees with the Finding and the Draft Report’s conclusion that it misclassified \$14,343 in travel expenses and that doing so was an internal control deficiency. For the same reasons, the recommendation is not warranted.

5. *Finding 2017-5: Subcontractor's Fraudulent Time Reported and Billed; Questioned Costs: \$0.*

During the audited period, one of CCCI's subcontractors, Social Development & Legal Rights (SDLR), billed for services at a rate that was higher than the cost of the services. This resulted in nearly \$89,494 in overbilling under the Contract. As the Draft Report notes, SDLR provided CCCI with fraudulent labor support for its billings. Upon discovery of the overbilling, CCCI immediately self-reported to USAID, credited the overbilled amount to USAID, and terminated its subcontract with SDLR.

Despite the fact that CCCI self-reported the SDLR incident to USAID, the Draft Report alleges that, merely because the incident occurred, CCCI did not have well-established internal controls for monitoring subcontractors and payments to subcontractors. This, however, is incorrect—CCCI has sufficient internal controls in place to monitor subcontractors and payments to subcontractors. For example, CCCI's Chief of Party and program personnel in the Kabul, Afghanistan project office review subcontractor invoices and certify both that work was performed and that subcontractors have complied with program obligations in accordance with the scope of work in their subcontracts. Following that review, the invoices and all supporting documentation are forwarded to CCCI's Washington office for further review and approval before payment can be authorized.

Though the Draft Report cites the SDLR incident as evidence of CCCI's insufficient internal controls, it actually illustrates the strength of CCCI's internal controls. The purpose of any internal control system is to prevent *and detect* misconduct. The express recognition that "detection" is a goal of the internal control system is an express acknowledgement that bad acts will occur. CCCI had, and continues to have, a system in place to detect such acts, which it did in the case of SDLR. Upon detecting the misconduct, CCCI took swift and effective action to remedy it.

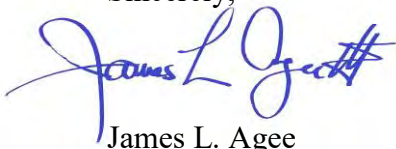
Conclusion: CCCI disagrees with the Finding and the Draft Report's conclusions that the facts that lead CCCI to self-report a subcontractor's fraudulent time and billing constitutes an internal control material weakness. CCCI does not believe the recommendation is necessary.

Conclusion

Based on the clarifications and arguments set forth above, CCCI respectfully requests that MHM reconsider its findings and recommendations, and remove them as discussed above and issue an unqualified opinion. It has been a privilege to work with USAID on this Contract, and we remain committed to quality service and executing our responsibilities with the strongest financial integrity.

Please do not hesitate to contact me if you have any questions or need additional information.

Sincerely,



James L. Agee
President

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
SUPPORT II

Auditor's Rebuttal to CCCI's Responses to Findings

For the Period July 1, 2014 through June 30, 2016

CCCI provided general management responses to the audit and audit report, as well as specific disagreements to all 4 findings presented in this report. We have reviewed its management responses and provide the following comments and rebuttals to the general management responses, as well as each of the findings to which it disagreed.

General Management Responses and Auditor's Rebuttal

CCCI noted that (1) the Background section of the report does not completely portray that the Contract is a federal procurement contract, (2) the amount of the total estimated cost plus fixed fee does not include the option year 4 amount, and (3) the total estimated costs of the Contract are understated. We reviewed each of these items and offer the following.

Background

CCCI states that the Background section of the report is silent as to the fact that the Contract is a federal procurement contract. The Background states that the Contract was awarded on a cost plus fixed fee basis. No additional language is required for purposes of this audit.

Contract Amount does not Include Option Year 4

CCCI states that the original draft report provided to it for comment did not add option year 4 to the total estimated cost plus fixed fee. Modification 15 to the Contract exercised option year 4. However, the Modification is silent as to the addition of any costs. Previous modifications to the Contract that exercised option years all identified costs associated with the option year. The costs for the option year were included as part of the original award, and thus we agree that the costs for option year 4 were not included in the total estimated cost plus fixed fee. We have revised the details of modification 15 in the Background section of the report to include the additional costs for the option year.

Total Estimated Costs Understated

CCCI states that the total estimated costs of the Contract should be [REDACTED]. The draft report provided to CCCI for comment incorrectly reported the total estimated costs of the Contract as [REDACTED]. We have revised the total estimated costs of the Contract to [REDACTED].

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
Services under Program and Project Offices for Results Tracking (SUPPORT), Phase II
For Costs Incurred in Afghanistan Only

Auditor's Rebuttal to CCCI's Responses to Findings

(Continued)

Management Responses and Auditor's Rebuttal to Each Specific Finding

Finding Number 2017-1: Lack of Evidence of Competitive Bidding

CCCI disagrees with this finding indicating that its Procurement Policy Manual does not apply to the hiring of consultants, 22 CFR 226 does not apply to the Contract, and the condition cited by the finding is not the same as the condition identified in a previous audit in that the prior audit finding dealt with subcontractors and not consultants. The following represents our responses to each of CCCI's disagreements. Based upon our review of CCCI's disagreement, and our subsequent review of documentation provided in conjunction with the audit, we consider this finding to be resolved and have removed it from the report. All other findings have been renumbered due to the removal of this finding from the report.

Finding Number 2017-2: Excess Reimbursement for Travel¹

CCCI partially agrees with this finding in that the Company agrees that an error was committed. However, CCCI believes that because the finding represents one transaction with a total error of \$31 out of several hundred transactions totaling millions of dollars, that this does not constitute an internal control deficiency. While we agree that \$31 is immaterial to the Contract as a whole, an error did occur on a judgmental sample of transactions. However, when an error occurs on a judgmental sample, it is reported regardless of materiality. Due to the small amount or error identified, the condition was reported as a deficiency and not as a significant deficiency or material weakness. As such, our finding and recommendation remains unchanged.

Finding Number 2017-3: Prepaid Rent on Leased Facilities

CCCI disagrees with this finding indicating that there is no requirement to report costs on an accrual basis. As indicated in the finding, the SPFS is prepared on the accrual basis of accounting, and the associated costs should be reported on the accrual basis of accounting. There is no impact on costs as a result of this finding as the entire rental period was exhausted. However, had CCCI vacated the leased facilities prior to expiration of the rental period, the government would have over-reimbursed CCCI for use of the facilities. As such, our finding and recommendation remains unchanged.

¹ Presented as finding 2017-1 in the revised report. With the deletion of the original finding 2017-1, the remaining four findings have been renumbered.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-12-00012
Services under Program and Project Offices for Results Tracking (SUPPORT), Phase II
For Costs Incurred in Afghanistan Only

Auditor's Rebuttal to CCCI's Responses to Findings

(Continued)

Finding Number 2017-4: Misclassified Expenses

CCCI disagrees with this finding indicating that the travel expenses were associated with a specific event and recorded as other direct costs. The Company also cites FAR 31.201-2(d) indicating that it has discretion in how to report its expenses. The specific costs in question were for airfare, lodging and other transportation costs, all clearly travel expenses. The budget for the Contract includes a cost category for travel, transportation and per diem. Recording expenses in a cost category other than where they should be recorded can result in an inaccurate portrayal of costs and an inaccurate comparison of budget versus actual expenses. As such, our finding and recommendation remains unchanged.

Finding Number 2017-5: Subcontractor's Fraudulent Time Reported and Billed

CCCI disagrees with this finding indicating that the fact that it identified the fraudulent time reporting and billing demonstrates a strength in its internal controls. The fact that a fraudulent activity occurred and it took two years to detect the fraud points to a significant weakness in preventive internal controls. We agree that CCCI was able to detect the fraudulent activity, but its controls should be designed in such a fashion as to prevent this type of fraudulent activity from even occurring. Based upon our review of CCCI's disagreement, and our subsequent review of documentation provided in conjunction with the audit, we have revised this finding from a material weakness to a significant deficiency in internal controls.

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Public Affairs Officer

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