

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-61 Financial Audit

USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives Inc.

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



SIGAR 18-61-FA/ACE Project

JULY
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 15, 2010, the U.S. Agency for International Development (USAID) awarded Development Alternatives Inc. (DAI) a 4.5-year, \$49.1 million task order to implement the Agricultural Credit Enhancement (ACE) project. The project's objectives were to manage all operations of the Agricultural Development Fund the agency established to help the Afghan Ministry of Agriculture, Irrigation, and Livestock lend money to small commercial farms and agribusinesses. USAID modified the task order 20 times, increasing the project's estimated cost to \$75.2 million and extending the period of performance by 1 month.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$73.5 million in expenditures and fixed fees charged to the task order for the period from July 15, 2010, through February 25, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in DAI's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DAI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAI's Special Purpose Financial Statement (SPFS). See Castro'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 Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards.

July 2018

USAID's Agricultural Credit Enhancement Project: Audit of Costs Incurred by Development Alternatives Inc.

SIGAR 18-61-FA

WHAT THE AUDIT FOUND

Castro found two internal control deficiencies and one instance of noncompliance with the terms and conditions of the task order. The auditors tested a sample of 161 payroll transactions to determine whether the amounts were supported by agreements or other documentation, and found that 7 transactions were not. Castro also tested a sample of 46 equipment and supply procurements to determine whether they were allocable to the task order, and found 3 that were not. The auditors also found that DAI did not provide proof that it conducted the required cost and price analysis for three procurements.

As a result of these internal control deficiencies and one instance of noncompliance, Castro identified \$21,374 in total questioned costs. Of that amount, \$9,774 were ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—and the remaining \$11,600 were unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Salaries and Wages	\$0	\$4,431	\$4,431
Equipment and Supplies	\$9,774	\$7,169	\$16,943
Totals	\$9,774	\$11,600	\$21,374

Castro reviewed two prior audit reports of costs DAI incurred related to the ACE project. The reports identified two findings that needed corrective action. Castro determined that DAI took appropriate action for the first finding, but not for the second. For the second finding, DAI did not have adequate documentation to support some of its procurements that were subject to competitive bidding.

Based on the results of DAI's financial audit procedures, Castro rendered an unmodified opinion on the firm's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$21,374 in questioned costs identified in the report.**
2. **Advise DAI to address the report's two internal control findings.**
3. **Advise DAI to address the report's noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 18, 2018

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

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by Development Alternatives Inc. (DAI) under a U.S. Agency for International Development (USAID) task order to implement the Agricultural Credit Enhancement (ACE) project.¹ Castro's audit covered \$73,548,101 in expenditures and fixed fees charged to the task order between July 15, 2010, and February 25, 2015. Our contract with Castro required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$21,374 in total questioned costs identified in the report.**
- 2. Advise DAI to address the report's two internal control findings.**
- 3. Advise DAI to address the report's noncompliance finding.**

The results of Castro's audit are in the attached report. We reviewed Castro'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 DAI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DAI's internal control or compliance with the task order, laws, and regulations. Castro is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Castro did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-112)

¹ USAID awarded task order number EDH-I-14-05-00004 to DAI to implement the ACE project. The project's objectives were to manage all operations of the Agricultural Development Fund which the agency established to help the Afghan Ministry of Agriculture, Irrigation, and Livestock lend money to small commercial farms and agribusinesses.

DAI Global, LLC
Agricultural Credit Enhancement (ACE) Project
Task Order No. EDH-I-14-05-00004
For the Period from July 15, 2010 through February 25, 2015

AUDIT REPORT

June 29, 2018

DAI Global, LLC
Financial Audit of Costs Incurred
Task Order No. EDH-I-14-05-00004
Agricultural Credit Enhancement (ACE) Project
For the Period from July 15, 2010 through February 25, 2015

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ACRONYMS USED IN THIS REPORT

Acronyms

AIDAR	Agency for International Development Acquisition Regulation
ACE	Agricultural Credit Enhancement
ADF	Agricultural Development Fund
B&P	Bid and Proposal
DSSR	Department of State Standardized Regulation
DAI	DAI Global, LLC
FAR	Federal Acquisition Regulation
GAGAS	Generally Accepted Government Auditing Standards
G&A	General and Administrative
GIRoA	Government of the Islamic Republic of Afghanistan
IQC	Indefinite Quantity Contract
MAIL	Ministry of Agriculture, Irrigation and Livestock
RAISE	Rural and Agricultural Incomes with a Sustainable
RMSI	Remote Medical Solutions International
SIGAR	Special Inspector General for Afghanistan Reconstruction
USAID	United States Agency for International Development

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Task Order No. EDH-I-14-05-00004
Agricultural Credit Enhancement (ACE) Project
For the Period from July 15, 2010 through February 15, 2015

Transmittal Letter

June 29, 2018

To: Board of Directors
DAI Global, LLC
7600 Wisconsin Avenue, Suite 200
Bethesda, MD 20814

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

From: Castro & Company, LLC
Alexandria, VA

Subject: Financial Audit of Costs Incurred by DAI Global, LLC (DAI) under the United States Agency for International Development (USAID) funded Agricultural Credit Enhancement (ACE) Project under Task Order No. EDH-I-14-05-00004, for the period from July 15, 2010 through February 25, 2015.

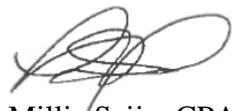
We hereby provide to you our final report, which reflects results from the procedures we completed during our Financial Audit of Cost Incurred by DAI under the USAID funded ACE Project, Task Order No. EDH-I-14-05-00004, for the period from July 15, 2010 through February 25, 2015.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement, Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary or any information following our reports.

On April 16, 2018, we provided SIGAR with a draft report reflecting our audit procedures and results. We also sent a copy of the draft report to DAI on May 29, 2018.

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

Sincerely,



Millie Seijo, CPA
Partner

DAI Global, LLC
Financial Audit of Costs Incurred
Task Order No. EDH-I-14-05-00004
Agricultural Credit Enhancement (ACE) Project
For the Period from July 15, 2010 through February 15, 2015

Summary

Background

On July 15, 2010, the United States Agency for International Development (USAID) awarded a cost plus fixed fee Task Order to DAI Global, LLC (DAI) to support the Agricultural Credit Enhancement (ACE) Project in Afghanistan. The Ministry of Agriculture, Irrigation and Livestock (MAIL) of the Government of the Islamic Republic of Afghanistan (GIROA) requested USAID to support small commercial farmers in Afghanistan. In response, USAID created the Agricultural Development Fund (ADF) through a grant of \$100 million to the GIROA/MAIL. The creation of the ADF resulted in USAID's establishment of the ACE project, which was designed to manage all operations of the ADF, as well as provide technical assistance to strengthen agricultural value chains. The primary objectives of the project were to:

1. Provide an increase in the availability of agricultural credit.
2. Support Afghan financial and private sector intermediaries.
3. Strengthen agricultural value chains and find increased market opportunities for Afghanistan agricultural products.
4. Build Afghan capacity to provide investment services.
5. Support the MAIL in coordinating and rationalizing the many donor-funded rural and agricultural initiatives in place.

The Task Order No. EDH-I-14-05-00004 was originally awarded for a total cost of [REDACTED] plus a fixed fee of [REDACTED]. The total cost plus fixed fee amount was \$49,134,816 for the original period of performance from July 15, 2010 through January 15, 2015. This Task Order was modified 20 times during the period under audit, including several modifications resulting in revisions to the budget. The total cost and fixed fee increased to [REDACTED] and [REDACTED], respectively. This resulted in a total estimated cost plus fixed fee of \$75,175,296 and extended completion of the task order to February 25, 2015. Below is a summary of modifications that had a significant impact on the original Task Order:

Modification No.	Effective Date	Significance
Mod 02	09/26/2010	Increased the ceiling amount to \$64,134,816 and the obligated amount to \$30,000,000
Mod 03	04/07/2011	Increased the ceiling amount to \$64,582,958
Mod 07	10/27/2011	Increased the obligated amount to \$43,615,499
Mod 08	12/21/2011	Increased the obligated amount to \$54,207,836
Mod 10	07/12/2012	Increased the ceiling amount to \$75,175,296 and the obligated amount to \$64,587,643
Mod 11	09/25/2013	Increased the total obligated amount to \$71,860,822
Mod 19	08/26/2014	Increased the total obligated amount to \$75,175,296
Mod 20	12/29/2014	Extend the period of performance to February 25, 2015

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The audit's scope includes activities within the period from July 15, 2010 through February 25, 2015. Within the period under audit, DAI reported [REDACTED] in total costs incurred and a total fixed fee of [REDACTED], for a total cost plus fixed fee of \$73,548,101.

Work Performed

Castro & Company, LLC (Castro & Co) was engaged by the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by DAI under the ACE Project, Task Order No. EDH-I-14-05-00004, for the period from July 15, 2010 through February 25, 2015.

Audit Objectives as Defined by SIGAR

The following audit objectives were defined by SIGAR within the Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether DAI's Special Purpose Financial Statement for the task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the task order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

Perform tests to determine whether DAI complied, in all material respects, with the task order requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the task order and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether DAI 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.

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Scope

The scope of our audit covers DAI's incurred costs and fixed fee amounts under Task Order No. EDH-I-14-05-00004 for the period from July 15, 2010 through February 25, 2015. We examined the Special Purpose Financial Statement and the underlying financial records, including recalculations of the related fixed fee, to ensure that the amounts reported in the Special Purpose Financial Statement were adequately supported. In addition, the following areas were considered to have a direct and material effect on the audit objectives under review:

- Budget Management
- Cash Management
- Disbursements (payroll and non-payroll transactions)
- Financial Reporting
- Procurement and Inventory Management

The records were made available for our review at DAI's office in Bethesda, MD. Castro & Co was not aware of any scope limitations as of the date of this report related to our audit of Task Order No. EDH-I-14-05-00004.

Methodology

To meet the audit objectives, Castro & Co identified the applicable criteria against which to test the Special Purpose Financial Statement and supporting financial records and documentation through a review of the task order. In addition, Castro & Co interviewed DAI's management and staff, and reviewed prior year reports, policies and procedures, and organizational charts to gain an understanding of the normal procedures and system of internal controls established by DAI to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Castro & Co performed this audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards 2011 revision (Yellow Book). In addition, the following areas were determined as directly and materially related to the Special Purpose Financial Statement and other audit objectives, and therefore, were included within the audit program for detailed evaluation:

- Planning – During the planning phase, we obtained an understanding of the Task Order between USAID and DAI, reviewed regulations specific to USAID that are applicable to the Task Order, obtained an understanding of DAI's internal control environment, and performed a reconciliation between the General Ledger and the Special Purpose Financial Statement provided by DAI. In addition, we prepared the sampling methodology, conducted an entrance conference, interviews, and walkthroughs with DAI, prepared a risk assessment for each assertion as it pertains to the Special Purpose Financial Statement, and selected a sample of transactions to test.

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- Budgetary compliance - audit steps included, but were not limited to: interviews with DAI's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls and comparing budget versus actual to identify unexplained overruns or shortfalls.
- Disbursements, including payroll and travel costs - audit steps included, but were not limited to: interviews of DAI's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls and review of supporting documentation for sample selections to assess proper charges to the project and adequacy of supporting documentation. For payroll expenses, we reviewed personnel files for salary and fringe benefits information, timesheets for proper approval and accuracy of the hours charged, and payroll disbursements in relation to the sample selection. For travel expenses, the sample was tested for proper charges to the project, compliance with federal travel regulations and USAID regulations, the accuracy of expenses charged to the task order, and adequacy of supporting documentation (expense report and receipts).
- Financial reporting - audit steps included, but were not limited to: the review of monthly progress reports, quarterly reports, and annual summary reports for timeliness, approvals, and accuracy.
- Procurement and inventory management – audit steps included, but were not limited to: interviews of DAI's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls. For non-travel, non-payroll transactions audit steps included, but were not limited to, the review of the expense for proper charges to the project and adequacy of supporting documentation. We reviewed sample items for compliance with vetting requirements and with tax withholding requirements. From a procurement standpoint, this included a review of sample selections to ensure competitive bidding techniques were used by DAI. For inventory management, we cross-referenced the USAID-approved disposition plan to the acknowledgements signed by the receiving parties for the inventory items, if applicable.
- Billing - audit steps included, but were not limited to: interviews of DAI's personnel and review of policies and procedures in relation to billing in order to determine existence and effectiveness of internal controls, and reviewing a sample of invoices to determine compliance with USAID's Agency for International Acquisition Regulation (AIDAR) 752.7003 as part of compliance testing.
- Compliance - Through a review of policies and procedures, interviews, walkthroughs and substantive testing for previously mentioned areas of testing and direct request of deliverables, we determined compliance with the deliverables, contract clauses and laws and regulations. Castro & Co reviewed the overhead charges under the indirect costs and fixed fee categories totaling \$8,222,353 and [REDACTED], respectively. Castro & Co also reviewed the methodology and obtained a sufficient understanding of DAI's proposed

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method of allocation. Testing of indirect costs was limited to a) determining whether DAI calculated indirect costs using the provisional rates approved by the Contracting Officer during the award negotiation process; and b) determining whether DAI calculated and recorded adjustments between estimated indirect costs and final, actual indirect costs incurred as of the end of each fiscal year.

Castro & Co used sampling techniques to select expenditures and payroll samples to test for the allowability of incurred costs. Castro & Co reviewed procurement records to determine reasonableness of the costs incurred and compliance with laws and regulations and the terms of the task order, especially the vetting process. For the samples selected, we requested and received supporting documentation for compliance evaluation of incurred costs. We also reviewed submitted financial status reports for accuracy and compliance with reporting requirements.

Summary of Audit Results

Upon completion of Castro & Co’s procedures, an unmodified opinion was issued on DAI’s Special Purpose Financial Statement. As a result of our tests, Castro & Co did not identify any internal control findings that were classified as significant deficiencies or material weaknesses, see Independent Auditor’s Report on Internal Control on page 15. Our audit identified two deficiencies in internal controls. They are described in Findings 2018-01 and 2018-02 (see pages 19 and 20). Castro & Co also reported on both DAI’s compliance with the terms and conditions of the task order and applicable laws and regulations, see Independent Auditor’s Report on Compliance on page 17. We identified one instance of noncompliance (see Finding 2018-03 on page 21).

When performing our fraud risk assessment, DAI informed us that an incident related to the misappropriation of funds was discovered by DAI personnel which occurred during the period under audit. DAI reported the incident to the USAID OIG, who along with SIGAR under Case # 0536-13-KBL-0195, conducted an investigation and resolved the case. USAID nor the U.S. Government suffered any loss due to this incident.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Total Questioned Costs
2018-01	Missing or Insufficient Source Documentation to Support Incurred Field Office Labor Expenses (Deficiency)	\$ 4,431

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Finding Number	Matter	Total Questioned Costs
2018-02	Missing or Insufficient Source Documentation to Support Incurred Field Office Labor Expenses (Deficiency)	\$ 7,169
2018-03	Lack of Evidence of Competitive Bidding (Non-Compliance)	\$ 9,774
Total Questioned Costs		\$ 21,374

Status of Prior Audit Reports

Castro & Co inquired of DAI, SIGAR, and USAID to determine if there have been prior audits, reviews, or assessments relevant to the Special Purpose Financial Statement and the ACE Project under Task Order No. EDH-I-14-05-00004. Castro & Co also performed a search on the internet to see if there was publicly available audits or reviews related to the project under audit. As a result of our procedures, we obtained and reviewed two Incurred Cost Audit Reports of DAI related to the ACE Project, covering the period from July 15, 2010 through December 31, 2013 and January 1, 2014 through February 25, 2015. The following audit reports were issued by Davis and Associates CPAs, PLLC:

- Report No. F-306-15-013-N issued on December 8, 2014 – Financial Audit of Costs Incurred by DAI for Assistance to Legislative Bodies of Afghanistan (ALBA) under 306-TO-13-00004 for the period of March 28, 2013 to December 31, 2013; Stabilization in Key Areas (SIKA) North under 306-C-12-00003 for the period of March 15, 2012 to December 31, 2013; Afghanistan Parliamentary Assistance Program (APAP) under 306-TO-12-00012 for the period of September 1, 2012 to January 16, 2013 (Close-out Audit); Incentives Driving Economic Alternatives for the North, East, and West (IDEA NEW) under 306-A-00-09-00508 for the period of January 1, 2013 to December 31, 2013; and Agricultural Credit Enhancement (ACE) Project in Afghanistan under 306-EDH-I-14-05-00004 for the period of July 15, 2010 to December 31, 2013.
- Report No 3-000-16-004-N issued on October 8, 2015 - Financial Audit of Costs Incurred by DAI in the Performance of Incentive Driving Economic Alter for the North, East, and West (IDEA NEW) for the period of January 1, 2014 to November 30, 2014; Regional Agricultural Development Program (RADP) – North for the period of May 21, 2014 to November 30, 2014; Agricultural Credit Enhancement (ACE) Project in Afghanistan for the period of January 1, 2014 to February 25, 2015; Stabilization in Key Areas (SIKA) North for the period of January 1, 2014 to November 30, 2014; and Assistance in Legislative Bodies of Afghanistan (ALBA) for the period of January 1, 2014 to November 30, 2014.

The audit reports identified two findings that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. One related to compliance with local tax law and the other to compliance with the procurement process. During

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our audit procedures to verify if DAI's management implemented the corrective actions to resolve prior findings, we observed that DAI complied with the required Provisions of Local Tax Law. However, although DAI provided training related to the procurement process, DAI failed to enforce compliance with the procurement process. Therefore, we concluded that DAI has not taken adequate corrective action to ensure that all 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 were corrected. See Schedule II within this report for further information related to the findings and corrective action taken, as well as the status of those corrective actions.

Summary of Management Comments

DAI management was provided an opportunity to review and provide written comments on the audit report. DAI management agreed with finding 2018-02, disagreed with findings 2018-01 and 2018-03, and provided additional support for our consideration. DAI's full response to the findings are incorporated in Appendix A of this report. Management's full response to the findings are incorporated in Appendix A of this report. Our responses to DAI's management comments are provided in Appendix B.

**Independent Auditor's Report
On the Special Purpose Financial Statement**

Board of Directors
DAI Global, LLC
7600 Wisconsin Avenue, Suite 200
Bethesda, MD 20814

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

We have audited the Special Purpose Financial Statement (the Statement) of DAI Global, LLC (DAI) under the Agricultural Credit Enhancement (ACE) Project, Task Order No. EDH-I-14-05-00004 for the period from July 15, 2010 through February 25, 2015, and the related notes to the Statement.

Management's Responsibility for the Statement

DAI's management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit 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 Statement is free of material misstatement.

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

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, project revenues, costs incurred and reimbursed, items directly procured by USAID, and the balance for the indicated period, in accordance with the cash basis of accounting described in Note 2.

Basis of Presentation

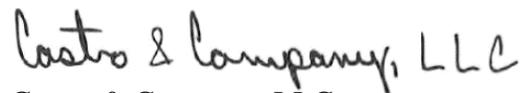
We draw attention to Note 2 to the Statement, which describes the basis of accounting. As described in Note 2, the Statement was prepared by DAI on the cash basis of accounting, which is a basis other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 29, 2018, of DAI's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the Statement. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DAI's internal control over financial reporting and compliance.

Restriction on Use

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



Castro & Company, LLC

May 29, 2018

Alexandria, VA

Special Purpose Financial Statement
DAI Global, LLC
Task Order Number EDH-I-14-05-00004
For the period from July 15, 2010 through February 25, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes¹</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<u>Revenues</u>					
Reimbursement	\$ 71,922,777	\$70,295,582			4
Award Fee	—	—			
Total Revenue	<u>\$ 75,175,296</u>	<u>\$73,548,101</u>			
<u>Costs Incurred</u>					
Salaries and Wages	\$ 6,005,200	\$ 5,835,051	\$ -	\$ 2,602	A
Fringe Benefits	1,696,951	1,614,811	-	-	
Travel, Transportation, and Per Diem	3,255,498	3,187,898	-	-	
Equipment and Supplies	720,237	640,355	8,959	6,571	B,C
Subcontractors	3,578,443	3,398,086	-	-	
Allowances	3,393,094	3,300,620	-	-	
Other Direct Costs	12,464,493	12,267,643	-	-	
ACE Grants/Loans	26,385,858	26,092,063			
Security	<u>5,867,293</u>	<u>5,736,702</u>	-	-	
Total Direct Costs	<u>\$ 63,367,067</u>	<u>\$62,073,229</u>	-	-	
Indirect Questioned Costs			815	2,427	
Total Questioned Costs			9,774	11,600	
<u>Indirect Costs</u>					
Overhead	—	—			
G&A	—	—			6
Total Costs Incurred	<u>\$ 8,555,710</u>	<u>\$ 8,222,353</u>			
Total Fixed Fees Charged	—	—			5
Total Costs Plus Fixed Fee	<u>\$ 75,175,296</u>	<u>\$73,548,101</u>			
Outstanding Balance	Fund \$ —	\$ —			7

The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

¹ See the Notes to the Questioned Costs Presented on the Special Purpose Financial Statement.

DAI Global, LLC
Notes to the Special Purpose Financial Statement
For the period from July 15, 2010 through February 25, 2015²

1. The Company

DAI Global, LLC (DAI) was founded in 1970 and is headquartered in Bethesda, MD with additional offices in the United States and the United Kingdom. DAI helps clients by providing solutions in the areas of corporate services, economic growth, environment and energy, governance, health, information and communication technology for development, and stability. It serves national and local governments, bilateral and multilateral donors, private corporations, and philanthropies in Asia, the Pacific, Eastern Europe, Central Asia, Latin America, the Caribbean, the Middle East, North Africa, and Sub-Saharan Africa.

On July 15, 2010, the United States Agency for International Development (USAID) awarded DAI Task Order No. EDH-I-14-05-00004 which established the Agricultural Credit Enhancement (ACE) project.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under the aforementioned task order for the period from July 15, 2010 through February 25, 2015. The information in the Statement is presented in accordance with requirements specified by USAID and is specific to the aforementioned task order. Therefore, some amounts presented in the Statement may differ from amounts presented in, or used in, the presentation of DAI's basic financial statements.

Basis of Accounting

The Statement reflects the revenues earned and expenses incurred by DAI under the aforementioned task order. The Statement has been prepared following the cash basis of accounting. Expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (FAR) 31.205 which are the cost principles for contracts related to commercial (for-profit) organizations. DAI maintains a project cost accounting system for the recording and accumulation of costs incurred under its cost-reimbursable task order line items.

Accounting System Dates

The Statement reflects all billable costs incurred under the task order for Afghanistan during the period of the audit. Only transactions and/or adjustments incurred in accounting periods during the audit period have been included in the Statement (indirect rate adjustments from provisional to actual rates for a fiscal year are posted in the same fiscal year before closing the books).

² Notes to the Special Purpose Financial Statement were developed by and are the responsibility of DAI's management.

Currency

The Statement is denominated in US dollars. Transactions in foreign currencies were converted to US dollar by applying the actual exchange rate based upon the bank rates used to transfer funds between US dollar accounts and Afghan accounts.

3. Estimated Cost

The Task Order was originally awarded for [REDACTED] plus a fixed fee of [REDACTED] for a total estimated cost plus fixed fee of \$49,134,816. This Task Order was modified 20 times during the period from July 15, 2010 through February 25, 2015. Several modifications were issued to increase to the total estimated cost plus fixed fee. As of February 25, 2015, the estimated cost was [REDACTED] plus a fixed fee of [REDACTED] for a total estimated cost plus fixed fee of \$75,175,296.

4. Revenues

Revenues represent the amount of the funds to which DAI is entitled to receive for allowable, reimbursable costs incurred. Since the ACE Project is a cost plus fixed fee contract, revenues are recognized as expenses allocable and allowable under the task order and are recorded on a monthly basis.

5. Cost Categories

The following are the cost categories shown on the SPFS by billing category as reported in client billings and accumulated in DAI's general ledger.

- Salaries and Fringe Benefits - These expenses are related to salaries and fringe benefits for local support staff as well as Home Office support staff and Expatriate and Third Country National long term and short term technical assistance. Fringe benefits are provided to employees by the employer such as life insurance, health insurance, pension contributions, vacation, holidays, sick leave, and other bona fide fringe benefits pay.
- Travel, Transportation, and Per Diem – These expenses are related to all project travel related costs including approved international travel costs associated with mobilization and demobilization of long term and short term technical staff as well as in-country local travel expenses.
- Equipment and Supplies – These expenses are related to expendable and non-expendable procurement, including IT equipment that will be utilized under the project.
- Subcontractors – These expenses are related to international partners subcontracted by DAI to facilitate the implementation of contractual program objectives.
- Allowances – These expenses are related to allowances for long term technical staff in accordance with Department of State Standardized Regulation (DSSR) 920, including post differential, danger pay, education allowance, separate maintenance allowance, storage of household effects, shipment allowance, rest and recuperation and regional rest break airfare.
- Other Direct Costs – All expenses related to program support costs such as lease costs, bank fees, communications, and other miscellaneous categories.

- ACE Grants/Loans – These expenses are related to grant funds used to achieve a variety of programmatic goals as well as temporary funds for the initial ADF used for lending activities.
- Security – These expenses are related to project’s security subcontractor as well as other security related issues.
- Indirect Cost – Indirect cost are associated with Overhead and G&A and are accordance with DAI’s Negotiated Indirect Cost Rate Agreement.
- Fixed Fee – The fixed fee was established in the Task Order between DAI and USAID and is in accordance with the terms of DAI’s Rural and Agricultural Incomes with a Sustainable Environment (RAISE) Plus Indefinite Quantity Contract (IQC).

6. Indirect Cost Rate

The allowable indirect costs shall be reimbursed based on the negotiated provisional or predetermined rates and the appropriate bases. A final invoice will be issued to USAID upon finalization of DAI’s indirect cost rates applicable to the period of performance. Therefore, DAI may make adjustments to the indirect costs currently reported on the Statement.

The base of application for the indirect cost rates are as follows:

- a) Home office/overseas fringe benefits are based on the total full-time home office and full-time overseas labor dollars.
- b) Part-time and intermittent fringe benefits are based on the total home office part-time and intermittent home office labor dollars (part-time and intermittent overseas labor dollars are not included).
- c) Overhead is based on the total direct labor dollars, Bid and Proposal (B&P) labor dollars and applicable fringe benefits.
- d) General and Administrative (G&A) costs are based on total costs excluding G&A costs and pass-through other direct costs.

7. Outstanding Fund Balance

The fund balance presented on the Statement represents the difference between revenues recognized and costs incurred during the implementation of the task order. For the period ending February 25, 2015 the outstanding fund balance amounted to \$0.

8. Subsequent Event

DAI evaluated subsequent events through May 29, 2018, date through which the Statement was available to be issued. DAI concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement
For the period from July 15, 2010 through February 25, 2015**

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

Note A – Questioned Costs – Salaries and Wages

Finding 2018-01: DAI did not maintain documentation to support field office employees' hours and rates charged to the project. As a result, we questioned the unsupported amount of \$4,431 of which [REDACTED] were in direct costs and [REDACTED] in indirect costs.

Note B – Questioned Costs – Equipment and Supplies

Finding 2018-02: DAI did not maintain supporting documentation for three supply related disbursements. As a result, we questioned the unsupported amount of \$7,169 of which [REDACTED] were in direct costs and [REDACTED] in indirect costs.

Note C – Questioned Costs – Equipment and Supplies

Finding 2018-03: The total cost of \$9,774, of which [REDACTED] were in direct costs plus [REDACTED] in allocated indirect costs, were questioned as ineligible as DAI could not provide documentation to support that the equipment and supplies purchased were acquired throughout the required procurement process. DAI could not provide bidding documents, costs analysis or sole sought justification.

Independent Auditor's Report on Internal Control

Board of Directors
DAI Global, LLC
7600 Wisconsin Avenue, Suite 200
Bethesda, MD 20814

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

We have audited the Special Purpose Financial Statement (the Statement) of DAI Global, LLC (DAI) under the Agricultural Credit Enhancement (ACE) Project, Task Order No. EDH-I-14-05-00004 for the period from July 15, 2010 through February 25, 2015, and the related notes to the Statement 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. We have issued our report thereon dated May 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered DAI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of DAI's internal control. Accordingly, we do not express an opinion on the effectiveness of DAI's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

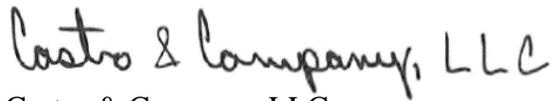
Our audit identified two deficiencies in internal controls. They are described in Findings 2018-01 and 2018-02.

Purpose of this Report

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

Restriction on Use

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

A handwritten signature in black ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company, LLC

May 29, 2018

Alexandria, VA

Independent Auditor's Report on Compliance

Board of Directors
DAI Global, LLC
7600 Wisconsin Avenue, Suite 200
Bethesda, MD 20814

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

We have audited the Special Purpose Financial Statement (the Statement) by DAI Global, LLC (DAI) under the Agricultural Credit Enhancement (ACE) Project, Task Order No. EDH-I-14-05-00004 for the period from July 15, 2010 through February 25, 2015, and the related notes to the Statement 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, and have issued our report thereon dated May 29, 2018.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and terms and conditions applicable to the contract task orders requirements referred to above is the responsibility of DAI's management.

Auditor's Responsibility

As part of obtaining reasonable assurance about whether DAI's Statement is free of material misstatement, including non-compliance due to fraud and errors, we performed tests of DAI's compliance with certain provisions of contract terms and laws and regulations, noncompliance which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-03.

In performing our testing, we considered whether the information obtained and tested during our audit may indicate the possibility of material fraud or abuse. During our testing, we did not identify instances of material fraud or abuse.

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 DAI's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering

DAI's compliance over the Statement. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Castro & Company, LLC

Castro & Company, LLC
May 29, 2018
Alexandria, VA

Schedule I - Schedule of Findings and Questioned Costs

Finding Number 2018-01: Missing or Insufficient Source Documentation to Support Incurred Field Office Labor Expenses (Deficiency)

Condition: We selected a sample of 11 payroll months for a total of \$1,244,126 of incurred costs from a total population of \$7,449,861 (17%) for the period from July 15, 2010 through February 25, 2015. During our testing of the samples, DAI did not retain documentation for seven (7) of the 161 field office labor samples. See summary of questioned costs below:

Table 1: Questioned Costs Related to Field Office Labor:

Sample #	Condition	# of Errors	Total Questioned Cost
1, 6, 11, 18, 26, 39, 53	Amendments to employee personnel files to support incurred field office labor expenses were missing.	7	\$ 4,431
Totals Table 1		7	\$ 4,431

Criteria: Under the Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures, subsection 31.201-2(d), a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The Contracting Officer may disallow all or part of a claimed cost that is inadequately supported.

Under FAR 31.205-6(a)(3), Compensation for Personal Services, to be allowable, the compensation must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment.

Cause: DAI misplaced amendments to support salary rate changes for two employees, resulting in a total of seven errors under the pay periods selected, due to management oversight at the field office.

Effect: The absence of sufficient and adequate source documentation to support the invoices paid resulted in \$4,431 in incurred costs that were not properly supported. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged and opportunities for waste, fraud, and abuse of government funds is increased.

Recommendations:

We recommend DAI to:

1. Provide USAID with records that clearly support the \$4,431 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

2. Provide training to project personnel emphasizing the importance of maintaining personnel files to ensure that appropriate documentation is maintained to support costs billed to the Government.

Finding Number 2018-02: Missing or Insufficient Source Documentation to Support Incurred Equipment and Supply Expenses (Deficiency)

Condition: We selected a total of 46 equipment and supply transactions totaling \$294,464 of incurred costs from a total population of \$640,355 (46%) for the period from July 15, 2010 through February 25, 2015. During our testing of the samples, DAI did not retain any supporting documentation (e.g. purchase orders, invoices, receipts, receiving reports, bid/quote documentation, etc.) for three (3) of the 46 equipment and supply samples. See summary of questioned costs below:

Table 2: Questioned Costs Related to Equipment and Supplies:

Sample #	Condition	# of Errors	Total Questioned Cost
157, 182, 197	DAI was unable to locate documentation to support the costs incurred.	3	\$ 7,169
Totals Table 2		3	\$ 7,169

Criteria: Under the Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures, subsection 31.201-2(d), a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The Contracting Officer may disallow all or part of a claimed cost that is inadequately supported.

Cause: DAI did not implement adequate internal controls to ensure that supporting documentation for the payments made for the acquisition of equipment and supplies were retained and readily available to support the costs incurred and billed to USAID. In addition, DAI did not adequately review invoices prior to billing USAID to ensure the costs claimed were properly supported.

Effect: The absence of sufficient and adequate source documentation to support the invoices paid resulted in \$7,169 in incurred costs that were claimed to and paid by USAID. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged and opportunities for waste, fraud, and abuse of government funds is increased.

Recommendations:

We recommend DAI to:

1. Provide USAID with records that clearly support the \$7,169 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

2. Implement and provide training to project personnel on the review process to ensure that appropriate documentation is maintained to support costs billed to the Government.

Finding Number 2018-03: Lack of Evidence of Competitive Bidding (Non-Compliance)

Condition: We selected a total of 46 equipment and supply transactions totaling \$294,464 of incurred costs from a total population of \$640,355 (46%) for the period from July 15, 2010 through February 25, 2015. During our testing of the samples, DAI was unable to provide sufficient documentation to support that a competitive bidding process was performed for three (3) of the 46 samples. DAI management had provided Field Procurement Training to field personnel supporting DAI funded projects in Afghanistan in response to a prior audit recommendation. See summary of questioned costs below:

Table 3: Ineligible Costs Related to Equipment and Supplies:

Sample #	Condition	# of Errors	Total Questioned Cost
162, 174, 181	Bids/quotes or proof of cost/price analysis documentation was not provided for review.	3	\$ 9,774
Totals Table 3		3	\$ 9,774

Criteria: Under FAR, Part 31, Contract Cost Principles and Procedures, subsection 31.201-2 (d), a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost which is inadequately supported.

Further, subsection 31.201-3 defines reasonableness and states that, “A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer’s representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable”.

Additionally, FAR 52.244-5(a), Competition in Subcontracting, states that the Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.

Cause: Even though DAI’s management provided Field Procurement Training to all DAI funded projects in Afghanistan, they did not closely monitor field personnel to ensure that lessons learned, related to the importance of document retention, were subsequently applied to all competitive bids

performed in Afghanistan.

Effect: Not monitoring lessons learned through training and prior year recommendations may hinder the effectiveness of corrective actions being implemented. In addition, failure to use open and competitive procurements may have resulted in the Government not receiving the most competitive providers for certain goods and services. We determined questioned costs in the amount \$9,774 as a result of the three (3) ineligible incurred cost transactions.

Recommendation:

We recommend DAI to:

1. Provide USAID with records that clearly support the eligibility of the \$9,774 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.
2. Develop a more effective policy, implement procedures and provide follow-up and/or additional training to project personnel to ensure vendors are competitively selected for goods and/or services procured in accordance with federal regulation and to ensure that documentation is maintained to support the procurement process.

Schedule II - Summary Schedule of Prior Audit, Review and Assessment Findings

Castro & Co obtained and reviewed two Incurred Cost Audit Reports of DAI related to the ACE Project, covering the period from July 15, 2010 through December 31, 2013 and January 1, 2014 through February 25, 2015. The audits were performed by Davis and Associates CPAs, PLLC. The audit reports identified two findings that could have a direct and material effect on the Statement. Based on discussions, we noted that DAI issued a statement of corrective action related to the findings below which was confirmed by USAID to close the recommendations issued. Based on our review, we have concluded that adequate corrective action has been taken to address Finding #1 below.

The audit reports disclosed total questioned costs in the amount of \$17,688 related to DAI's lack of open and free competition to justify procurement services. During our fieldwork, we confirmed with DAI management and USAID that the total questioned costs of \$17,688 was not requested back nor returned to USAID. DAI provided Castro & Co with the email confirmation from USAID confirming that all findings and related questioned costs were resolved, and that appropriate corrective action was taken to address the findings. Castro & Co conducted follow-up procedures related to the findings as note below:

- **Finding #1: Lack of Compliance with Provisions of Local Tax Law (Material Noncompliance)**

Condition – DAI did not withhold certain withholding taxes from payments made to its subcontractor Remote Medical Solutions International (RMSI), nor was a tax exemption certificate provided. Costs paid to RMSI were billed to ACE, ALBA, SIKA North, and IDEA-NEW.

Status – DAI considered any/all future payments that may occur outside of Afghanistan to ensure that to the extent possible and practical such payments are made locally to ensure applicability and compliance with local Afghan tax law. DAI implemented policies and procedures covering DAI's compliance with Afghan tax laws. USAID confirmed that DAI correctly implemented corrective action for this finding. Based on our procedures over reporting requirements, we did not identify any issues related to Local Tax Laws; therefore, Castro & Co concludes that DAI properly addressed the prior audit finding.

- **Finding #2: Lack of Competitive Procurement Process – ACE (Material Noncompliance)**

Condition –DAI did not use open and free competition to justify the procurement of services by Remote Medical Solutions International. DAI was not able to provide adequate supporting documentation or sole source justification for the transactions.

Current Status – DAI submitted supporting documentation and disagreed with the auditor's conclusion. USAID did not request reimbursement for the questioned costs; however, DAI took corrective action by providing Field Procurement Trainings to all DAI funded projects in Afghanistan. Castro & Co reviewed the agendas, presentation materials, and listing of trainers and participants and noted that all training was performed subsequent to the Davis

audit. USAID deemed the correction action implemented by DAI to be reasonable. Our audit detected instances where DAI did not have documentation to support their use of a competitive procurement process for several services and did not provide sole source justification. Castro & Co concluded that DAI did not properly address this prior audit finding.

Appendix A – Management Response to Audit Findings

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June 13, 2018



Thomas Castro, CPA
Castro & Company, LLC
1737 King Street, Suite 250
Alexandria, VA 22314

Subject: DAI Corrective Action Plan on the Financial Audit of Costs Incurred under the United States Agency for International Development (USAID) funded Agricultural Credit Enhancement (ACE) Project, Task Order No. EDH-1-14-05-00004, for the period from July 15, 2010 through February 25, 2015

This letter is to provide DAI's response to the recommendations contained in the draft audit report received from Castro & Company, LLC on May 29, 2018. Below you will find our response to each recommendation, providing the requested detailed plan of action to address and to correct the resulting recommendations. Where applicable, referenced additional support documentation is also included.

DAI would like to thank the Castro & Company, LLC, for leading this engagement and for providing DAI the opportunity to respond to the audit recommendations in the draft report.

Summary

- DAI was able to locate and now provide the support documentation to substantiate questioned costs under Finding 2018-01.
- DAI recognizes the questioned costs from Finding 2018-02 summarized in the table below, and will credit these questioned costs to USAID.
- DAI disagrees with Finding 2018-03 as an ineligible questioned cost and considers that DAI would have applied proper procurement procedures for these questioned procurements.
- DAI disagrees with Finding 2018-04 and disagrees with auditor's determination, in their review of previous audit findings, that Finding #2 of Audit Report No 3-000-16-004-N issued October 8, 2015 should be reinstated.

Finding	Questioned Costs			DAI
	Ineligible	Unsupported	Total	Acknowledgement
2018-01	-	4,431.00	4,431.00	-
2018-02	-	7,169.00	7,169.00	7,169.00
2018-03	9,774.00	-	9,774.00	-
2018-04	39.00	-	39.00	-
Total	9,813.00	11,600.00	21,413.00	7,169.00

Finding Number 2018-01: Missing or Insufficient Source Documentation to Support Incurred Field Office Labor Expenses (Deficiency).

Recommendation 1: Provide USAID with records that clearly support the \$4,431 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

DAI Response: DAI acknowledges auditor's requirement of additional source documentation to substantiate the questioned incurred field labor expenses.

The questioned field labor payments originated from missing employment agreement modifications that did not allow auditors to validate labor rates for two sampled employees. The total questioned amount resulted from seven sampled payroll transactions scheduled below, which correspond to a period for which the employment agreement modifications were not provided for the two employees.

For the employees in question, DAI located fully executed employment agreement modifications referencing the rates that were in effect in the period covered by the auditor's sample. These are provided under attachment 2018-01A and 2018-01B.

Based on the rates on the employment modifications, DAI was able to properly substantiate the hourly labor rates in the total sample labor transactions as illustrated below. DAI considers that adequate support has been provided to substantiate the questioned field office labor expenses in this finding.

Sample #	Employee ID	Pay Period	Amount Billed	No of Hour Billed	Hourly Rate	Exchange Rate	Recalculated Amount	Variance
1	35272	11/30/11	438	28	749	0.0208	437	1
6	16519	11/30/11	326	19	821	0.0208	325	1
11	35272	12/31/11	520	34	749	0.0204	519	0
18	16519	12/31/11	352	21	821	0.0204	352	0
26	35272	5/31/12	240	16	749	0.0200	240	0
39	35273	7/31/12	351	24	749	0.0195	351	1
53	35273	10/31/12	375	24	812	0.0192	375	0

Recommendation 2: Provide training to project personnel emphasizing the importance of maintaining personnel files to ensure that appropriate documentation is maintained to support costs billed to the Government.

DAI Response: Given that additional documentation pertaining to the questioned labor transactions was provided to the auditor, DAI maintains that our personnel recordkeeping policies are adequate and that billed cost are adequately supported by the documentation provided.

Since the period in which the sampled costs have been generated and incurred, DAI has continuously improved and enhanced its HR policies and procedures including guidance governing the maintenance of personnel files (Attachment 2018-01C) and processing salary increases (Attachment 2018-01D) as well as requiring mandatory electronic archival of personnel files. DAI further asserts that current projects fully strive to conserve and safeguard appropriate documentation to support any cost billed to USAID.

DAI will continue to reinforce and monitor compliance with relevant established internal policies and procedures and remind HR personnel of the importance of maintaining files, but does not consider that further action needs to be taken to address this finding. **Finding Number 2018-02: Missing or Insufficient Source Documentation to Support Incurred Equipment and Supply Expenses (Deficiency).**

Recommendation 1: Provide USAID with records that clearly support the \$7,169 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

DAI Response: DAI agrees with this finding and will credit the unsupported questioned cost back to USAID.

The identified transactions pertain to a single payment made to a local supplier during project startup. DAI considers that the procurement would have been properly implemented at project inception by the project start-up team. However, the hard copy file containing the transaction voucher along with documentation substantiating competitive procurement were not located as they seem to have been inadvertently misplaced in the project's closedown files.

Subsequent audits and substantive testing of procurement transactions beyond the startup period did not reveal other instances of missing documentation. DAI continually strives to implement internal controls and has focused on continuous enhancements to business processes and systems to achieve full compliance with all relevant procurement policies, rules and regulations. Examples of DAI continuous improvement efforts include the implementation of an electronic archiving system to enhance the permanent archiving

of critical project records and a robust and comprehensive one-week mandatory Field Procurement Training program delivered and targeted to project staff.

DAI has also implemented a Technical Administrative Management Information System (TAMIS), which contains a procurement module that contained a document workflow feature and tools for the efficient and transparent procurement and property management. The module tracks and documents the procurement process from the time an initial procurement request is made, through the bidding process and vendor selection, to the time that the purchase order is issued, goods or services are received, deliverables approved and payment is made. All items procured by the project are logged into the inventory module which allows DAI to report to our client on all assets across project locations.

DAI believes that the above demonstrate our commitment to implementing and ensuring adequate controls and compliance with relevant procurement policies.

Recommendation 2: Implement and provide training to project personnel on the review process to ensure that appropriate documentation is maintained to support costs billed to the Government.

DAI Response: DAI acknowledges the recommendation and will continue implementing the business process enhancements discussed above. However, we disagree that this instance of misplaced financial documentation was caused by the lack of close monitoring of project personnel, or deficiencies in training provided.

DAI continuously updates our policies and procedures to ensure compliance. Our current procurement policy requires DAI to select vendors on a competitive basis to the maximum extent practical to comply with the applicable federal regulations. In addition, DAI took the step to increase staff's knowledge on compliance by conducting field procurement training sessions on an annual basis. The annual field procurement training started in 2014 and the auditor noted no instances of non-compliance in the period following the first training conducted in 2014. DAI therefore concludes that our policies, procedures and training adequately address competitive procurement requirements under federal awards.

Finding Number 2018-03: Lack of Evidence of Competitive Bidding (Non-Compliance).

Recommendation 1: Provide USAID with records that clearly support the eligibility of the \$9,774 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

DAI Response: DAI disagrees with the auditor's questioning of the amount of \$9,774 as ineligible due to the lack of documentation evidencing a competitive procurement process.

The three audit samples associated with this finding originated in 2010. During that time, DAI's procurement team maintained price lists of IT equipment offered by multiple vendors in paper copy. Our procurement team used these price lists to determine which vendor to place an order with. The hard copy price lists supporting price reasonability for the three samples could not be retrieved from our archive. Both vendors used in these procurements are also DAI's current IT equipment vendors, with a history of reliable delivery at competitive prices. DAI maintains that an adequate procurement process was followed per the policies and procedures in effect at the time of the purchase, and that the costs questioned by the auditor are allowable, allocable and reasonable.

Recommendation 2: Develop a more effective policy, implement procedures and provide follow-up and/or additional training to project personnel to ensure vendors are competitively selected for goods and/or services procured in accordance with federal regulation and to ensure that documentation is maintained to support the procurement process.

DAI Response: DAI acknowledges the recommendation. However, we disagree that this instance of misplaced documentation was caused by the lack of close monitoring of project personnel, or deficiencies in training provided.

DAI continuously updates our policies and procedures to ensure compliance. Our current procurement policy requires DAI to select vendors on a competitive basis to the maximum extent practical to comply with the applicable federal regulations. In addition, DAI took the step to increase staff's knowledge on compliance by conducting field procurement training sessions on an annual basis. The annual field procurement training started in 2014 and the auditor noted no instances of non-compliance in the period following the first training conducted in 2014. DAI therefore concludes that our policies, procedures and training adequately address competitive procurement requirements under federal awards.

Finding Number 2018-04: Improper Currency Exchange Rates (Deficiency)

Recommendation 1: Provide USAID with documentation to support that the correct exchange rate was used or reimburse USAID the \$39 for the overbilled amount.

DAI Response: DAI does not agree this finding to be a deficiency, as the identified variance is not attributable to the incorrect application of currency exchange rates.

DAI further reexamined the auditor's recalculation and was able to determine that the identified variances were instead generated by:

- a. Incorrect salary rates applied in the auditor's recalculation; and
- b. Auditor's recalculation did not factor salary increases which were retroactively adjusted in a subsequent pay period.

DAI recalculated the sample amounts and noted zero variances.

Sample #	Auditor's Recalculation			DAI's Recalculation			Auditor's Recalculation	vs	DAI's
	67	70	82	67	70	82			
Amount Billed	127	905	122	127	905	122	-	-	-
Hours Billed	8	50	8	8	50	8	-	-	-
Hourly Rate [1]	763	867	826	868	940	889	(105)	(72)	(63)
Exchange Rate (USD/AFN)	0.0191	0.0191	0.0175	0.0192	0.0192	0.0175	(0.0001)	(0.0001)	(0.0000)
Recalculated Amount	117	830	116	134	905	125	(17)	(75)	(9)
Variance	(11)	(75)	(6)	6	0	3	(17)	(75)	(9)
Adjustment [2]				6	-	3			
Remaining Variance				(0)	0	(0)			

[1] The auditor did not use the correct salary rates which correspond with the selected pay periods. Please refer to the correct salary rates in the amendments to the employment agreements with the respective employees uploaded to SharePoint on January 29, 2018.

[2] The salary increases granted to the employee associated with sample #67 and 82 were retroactively accounted for in a subsequent pay period. Please refer to Attachment 2018-04A and 2018-04B for documentation supporting the adjustment entries.

Based on the additional documentation and clarifications provided above, DAI does not consider this to be a deficiency and considers that the salary payments billed to the client were appropriate, adequate, and properly substantiated and that no additional corrective action would be required.

Finding #2: Lack of Competitive Procurement Process – ACE (Material Noncompliance)

Auditors have originated this finding based on Recommendation No. 2 of Audit Report No. 3-000-16-004-N, which required DAI to provide training to its personnel for conducting open and free competition in accordance with federal regulations. The audit

report was issued October 8, 2015 and covered several DAI Afghanistan projects including the close out period for ACE, from January 1, 2014, to February 25, 2015.

This audit finding was closed by USAD Afghanistan based on DAI's action plan which included the continued delivery of Field Procurement Training to Afghanistan projects, documentation which was provided and corroborated with the Castro and Company auditors.

DAI does not agree that this audit finding needs to be reinstated based on compliance deficiencies that would have occurred before DAI has implemented corrective actions and business process enhancements, including mandatory Field Procurement Training. The single identified instance of lack of supporting documentation for competitive procurement does not indicate systemic or pervasive noncompliance. Nevertheless, DAI will continue its delivery of Field Procurement Training, which includes extensive training on appropriate documentation requirements and maintenance to support costs billed to the Government.

We believe our responses provided above properly address the amounts questioned and provide corrective actions for the findings and audit recommendations identified in the draft audit report.

Please do not hesitate to contact DAI if you have any further questions, would require additional information or wish to further discuss DAI responses provided in this letter.

Sincerely,

A handwritten signature in black ink that reads "Raul Pinto".

Raul Pinto

Director, Internal Audit
DAI Global, LLC
raul_pinto@dai.com
1.301.771.7823

Appendix B – Auditor’s Response

Castro & Company (Castro & Co), in consideration of the views of DAI management, presents its rebuttal and clarification to certain matters. Castro & Co’s responses are provided with the intent to clarify factual errors and provide our analysis, where appropriate, to assist the users in their assessment of the findings and recommendations included in this report. In those instances where management’s responses, as per Appendix A, did not provide new information and support to modify the facts and circumstances that resulted in the initial findings, we did not provide a response.

On June 13, 2018, DAI management provided additional documentation for draft finding 2018-04. The support was provided after our Exit Conference with DAI, SIGAR, and USAID, which was held on March 14, 2018. Castro & Co reviewed the documentation, and concluded that the samples related to the salary payments billed to USAID were appropriate, adequate, and properly substantiated. Therefore, finding 2018-04 and the related recommendation was removed from the final report.

Finding Number 2018-01: Missing or Insufficient Source Documentation to Support Incurred Field Office Labor Expenses (Deficiency)

DAI management provided us with additional documentation, fully executed employment agreement modifications, to support the cost being questioned. After assessing the documentation provided by DAI management, we noted that the documentation did not support the increase in salary and the period of the extension of the contract for the samples tested.

For one sample, the original salary amendment provided for Mr. Ahmad amounted to AFS 1,558,408.50 and was dated July 22, 2010. This amendment does not cover the payroll period in question. In addition, the second amendment provided to support the increase in salary of Mr. Ahmad was signed on November 19, 2012. Mr. Ahmad’s salary was increased from AFS 1,688,275.875 to AFS 1,772,689 and the employment agreement amendment extended the period of the contract from December 1, 2012 to November 30, 2013. The payroll periods under review for Mr. Ahmad were from November 2011 through October 2012; therefore, the amendments provided did not support the payroll periods in question.

Additionally, DAI did not provide Mr. Ahmad’s written employment agreement modification showing the increase in annual salary from AFS 1,558,408.50 to AFS 1,688,275.875, and the amendment to cover the period from December 1, 2011 to November 30, 2012. As a result, the questioned costs related to Mr. Ahmad amounting to \$3,293 remain in question.

For another sample, DAI did not provide Mr. Nazary’s employee agreement amendment disclosing his salary increase and the extended period of the contract in question. DAI provided Mr. Nazary’s Annual Compensation Statement for Fiscal Year 2011; however, it did not include Mr. Nazary’s signature and date. Therefore, we cannot ensure the date when this document was in fact originated. Therefore, the questioned costs related to Mr. Nazary amounting to \$1,138 remains questioned.

The total amount questioned of \$4,431 is composed as follow:

Employee Amount	Questioned Cost
Farid Ahmad	\$ 3,293
Assadulah Nazary	\$ 1,138
Total Questioned Costs	\$ 4,431

Finding Number 2018-03: Lack of Evidence of Competitive Bidding (Non-Compliance)

DAI disagreed with this finding and the ineligible questioned costs of \$9,774. DAI stated that their procurement team maintained hard copy price lists of IT equipment offered from the vendors. These price lists were used to determine which vendors to place the order with. The hard copy price lists supporting the reasonability for the three sample items in question could not be retrieved from their archives.

DAI states that they maintain appropriate procurement policies and procedures, and followed them at the time of the purchase of the equipment in question; therefore, the questioned costs are allowable, allocable and considered reasonable. DAI acknowledges that documentation supporting the price reasonability of the three samples selected could not be retrieved from DAI's archives.

Because the price lists could not be retrieved for review, Castro & Co was unable to determine the price reasonability of the three samples selected. Castro & Co concludes that Finding 2018-03, and the questioned costs in the amount of \$9,774 remains.

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