

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 19-43 Financial Audit

USAID's Strengthening Watershed and Irrigation Management Program: Audit of Costs Incurred by AECOM International Development Inc.

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



JULY
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 7, 2016, the U.S. Agency for International Development (USAID) awarded AECOM International Development Inc. (AECOM) a 5-year, cost-plus-fixed-fee contract for \$87,905,437 to support the Strengthening Watershed and Irrigation Management program. The contract's objective was to support sustainable economic growth in agriculture by working with farmers, the Afghan government, and USAID's Regional Agriculture Development programs to strengthen their management of Afghanistan's water resources. USAID modified the contract three times through August 14, 2018, for administrative reasons, but the modifications did not affect the contract's value or its period of performance end date of December 6, 2021.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$10,467,195 in costs charged to the contract between December 7, 2016, and September 30, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in AECOM's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AECOM has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AECOM's Special Purpose Financial Statement (SPFS). See Conrad'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 Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

July 2019

USAID's Strengthening Watershed and Irrigation Management Program: Audit of Costs Incurred by AECOM International Development Inc.

SIGAR 19-43-FA

WHAT THE AUDIT FOUND

Conrad identified one material weakness and two deficiencies in AECOM's internal controls, and three instances of noncompliance with the terms and conditions of the contract and applicable regulations. For example, AECOM could not provide evidence that two of its employees and a consultant met the pre-deployment medical clearance requirements before deploying to Afghanistan, which violated contract requirements. AECOM also did not provide sufficient support for booking travel with a foreign airline when a U.S. air carrier was available, which violated U.S. government regulations.

Because of the internal control deficiencies and instances of noncompliance, Conrad identified \$1,395,553 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. Conrad did not identify any unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Lacked Evidence to Support Pre-Deployment Requirements	\$1,389,710	\$0	\$1,389,710
Insufficient Evidence of Compliance with the Fly America Act	\$4,823	\$0	\$4,823
Incorrect Personnel Cost Claimed	\$1,020	\$0	\$1,020
Totals	\$1,395,553	\$0	\$1,395,553

Conrad identified three prior audit reports with a total of seven findings that could have a material effect on the SPFS. During its testing, Conrad concluded that AECOM had taken adequate corrective actions on the recommendations for all seven findings.

Conrad issued a qualified opinion on AECOM's SPFS. Conrad concluded that the total questioned costs it identified are material to the statement, and that except for the possible effects of the total questioned costs, the SPFS presents fairly, in all material respects, the revenue received and costs incurred by AECOM under the contract for the audited period.

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, \$1,395,553 in total questioned costs identified in the report.
2. Advise AECOM to address the report's three internal control findings.
3. Advise AECOM to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 3, 2019

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

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by AECOM International Development Inc. (AECOM) under a U.S. Agency for International Development (USAID) contract to support the Strengthening Watershed and Irrigation Management program.¹ The contract's objective was to support sustainable economic growth in agriculture by working with farmers, the Afghan government, and USAID's Regional Agriculture Development programs to strengthen their management of Afghanistan's water resources. Conrad's audit covered \$10,467,195 in costs charged to the contract between December 7, 2016, and September 30, 2018. Our contract with Conrad required that the audit be performed in accordance with generally accepted government audit standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$1,395,553 in total questioned costs identified in the report.**
- 2. Advise AECOM to address the report's three internal control findings.**
- 3. Advise AECOM to address the report's three noncompliance findings.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed Conrad's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on AECOM's Special Purpose Financial Statement. We also express no opinion on the effectiveness of AECOM's internal control or compliance with the contract, laws, and regulations. Conrad is responsible for the attached auditor's report and conclusions expressed in it. However, our review disclosed no instances where Conrad 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 the agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-149)

¹ The contract number is AID-306-C-17-00001.

AECOM International Development, Inc.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-17-00001
Strengthening Watershed and Irrigation Management (“SWIM”) Program

For the Period December 7, 2016 to September 30, 2018

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	1
Objectives, Scope, and Methodology	1
Summary of Findings and Questioned Costs	4
Review of Prior Findings and Recommendations	5
Summary of AECOM's Responses to Findings	5
Independent Auditor's Report on the Special Purpose Financial Statement	6
Special Purpose Financial Statement	9
Notes to the Special Purpose Financial Statement	10
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	12
Independent Auditor's Report on Internal Control	13
Independent Auditor's Report on Compliance	16
Schedule of Findings and Questioned Costs	18
Status of Prior Audit Findings	26
Appendices:	
Appendix A: AECOM's Responses to Findings	28
Appendix B: Auditor's Rebuttal to AECOM's Responses to the Audit Report	32



July 1, 2019

Board of Directors
AECOM International Development, Inc.
Arlington, VA

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of AECOM International Development, Inc. ("AECOM") Special Purpose Financial Statement ("SPFS") for costs incurred under U.S. Agency for International Development (USAID) Contract No. AID-306-C-17-00001, for the period December 7, 2016 through September 30, 2018, under the Strengthening Watershed and Irrigation Management ("SWIM") program to support sustainable agriculture-related economic growth.

On May 16, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. AECOM received a copy of the report on June 6, 2019 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and AECOM. AECOM's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this AECOM contract.

Sincerely,

A handwritten signature in blue ink that reads "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Background

On December 7, 2016, the U.S. Agency for International Development / Afghanistan (“USAID”) awarded a cost-plus-fixed-fee contract to AECOM International Development, Inc. (“AECOM”, or the “Company”) to carry out the Strengthening Watershed and Irrigation Management (“SWIM”) program. The objective of the program is to support sustainable agriculture-related economic growth by increasing the sustainable and productive use of water livelihoods, and strengthening water resource management. SWIM is organized as a five -year contract worth \$87,905,437 with the initial phase to be implemented only in the North region and with an option to expand up to two additional regions in the West and South. The period of performance end date is December 6, 2021. The contract was modified three times through August 14, 2018 for administrative reasons, but had no impact on the original contract value or period of performance. Modification #3 increased the estimated cost for and fixed fee from \$47,930,389 to \$57,680,938 for the North region, but the total estimated contract cost remained unchanged.

Under the contract, AECOM is required to provide capacity building, technical services, and related resources to support three groups: (1) farmers and farm communities as they manage their water resources; (2) the Afghan government in strengthening water resource management; and (3) USAID’s Regional Agriculture Development programs (“RADPs”) to increase agricultural water productivity.

According to AECOM’s audited financial statement for fiscal year 2017, Notes to Consolidated Financial Statements, AECOM is a U.S. based public company. The company provides planning, consulting, architectural and engineering design services to commercial and government clients worldwide in major end markets such as transportation, facilities, environmental, energy, water and government markets. The company also provides construction services, including building construction and energy, infrastructure and industrial construction services, emergency response, expeditionary services, logistics and supply chain, network and communications, and expeditionary infrastructure services.

Work Performed

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of AECOM’s Special Purpose Financial Statement (“SPFS”) for costs incurred under the USAID Contract No. AID-306-C-17-00001 (“Contract”) for the period December 7, 2016 through September 30, 2018 for the North region. Total costs incurred for the period were \$10,467,195.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit include the following:

- *The Special Purpose Financial Statement* – Express an opinion on whether AECOM’s SPFS for the contract presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the 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 sufficient understanding of AECOM's internal controls related to the contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether AECOM complied, in all material respects, with the contract 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.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether AECOM has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period December 7, 2016 through September 30, 2018 under the Contract. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the Defense Contract Management Agency (“DCMA”).

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 January 31, 2019. Participants included representatives of Conrad, AECOM, SIGAR, and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of AECOM;
- 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 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, which means none of the costs are identical 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:

- For accounts that appeared to contain unallowable and restricted items according to the terms of the Contract, 48 Code of Federal Regulations (“CFR”) Chapters 1 and 7 and any other applicable regulations, we tested 100% of the transactions.
- For related party transactions, we tested 100% of the transactions.
- For high risk cost categories, we sampled transactions greater than \$52,300 not to exceed 30% of the total amount expended for each cost category.
- For medium risk cost categories, we sampled transactions greater than \$104,600 not to exceed 20% of the total amount expended for each cost category.
- For low risk cost categories, we sampled transactions that are greater than \$104,600 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

Internal Controls Related to the Contract

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

Compliance with Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether AECOM complied, in all material respects, with the contract requirements and applicable laws and regulations; and identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested previous audit reports from AECOM. In addition, we did an on-line search of various governmental websites including SIGAR, USAID and other federal agencies for reports from previous engagements to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. 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 and general ledger;
- Traced receipt of funds to the accounting records; and
- 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 May 7, 2019 via conference call. Participants included representatives from Conrad, AECOM, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Our audit of the costs incurred by AECOM under the Contract with USAID identified the following matters. Findings are classified as either internal control or compliance, or a combination of internal control and compliance.

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the fairness of the presentation of the SPFS. A modified opinion can be either a qualified, adverse, or disclaimer. We issued a qualified opinion because we had identified \$1,395,553 in total questioned costs under the Contract because they were either ineligible or unsupported which we considered to be material to the SPFS. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

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

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2019-01	Compliance; Internal control – material weakness	Lacked evidence to support pre-deployment requirements were met.	\$1,389,710	\$0	\$1,389,710
2019-02	Compliance; Internal control – deficiency	Insufficient evidence of compliance with the Fly America Act was provided.	\$4,823	\$0	\$1,394,533
2019-03	Compliance; Internal control – deficiency	Incorrect Personnel cost claimed	\$1,020	\$0	\$1,395,553
Total Questioned Costs			\$1,395,553	\$0	\$1,395,553

Internal Control Findings

Our audit discovered three internal control findings, consisting of one material weakness and two deficiencies. See Independent Auditor's Report on Internal Control on page 13. The complete management responses from AECOM to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

The results of our tests disclosed three instances of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 16. The complete management responses from AECOM to each of the compliance findings can be found in Appendix A to this report.

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

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to AECOM's activities under the contract, we had identified three prior engagements that contained seven findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. Based on our review, AECOM has taken adequate corrective actions on the recommendations on all seven findings. See Status of Prior Audit Findings on page 18 for a detailed description of the prior findings and recommendations.

Summary of AECOM's Responses to Findings

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

- 2019-01: AECOM acknowledged that the required medical examination documentation was not provided to us. However, AECOM noted that if any of the three employees /one consultant were unable to perform their duties under the contract due to physical disability, then AECOM would be responsible for returning the employee/consultant home and providing a replacement. AECOM provided additional information on one of the three employees¹ and the one consultant identified in the findings.
- 2019-02: AECOM disagrees with the questioned costs, but did acknowledge that no documentation was provided to support that Fly America Act was followed.
- 2019-03: AECOM agrees with this finding that there was a data entry error occurred, but disagree its staff lacked training and inadequate internal control.

¹ The supporting documentation provided for the one employee was sufficient and the finding has been updated.



INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
AECOM International Development, Inc.
Arlington, Virginia

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of AECOM International Development, Inc. ("AECOM") and the related notes to the Special Purpose Financial Statement, with respect to the U.S. Agency for International Development / Afghanistan ("USAID") Contract No. AID-306-C-17-00001, Strengthening Watershed and Irrigation Management ("SWIM") program, for the period December 7, 2016 through September 30, 2018.

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 requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

Auditors' 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 AECOM'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

(Continued)

- 6 -

effectiveness of the AECOM'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.

Basis for Qualified Opinion

We identified several transactions totaling \$1,395,553 that were questionable based upon our review of the underlying support for the specified transactions. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by AECOM under the Contract, for the period December 7, 2016 through September 30, 2018, in accordance with the basis of accounting described in Note 3.

Basis of Presentation

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by AECOM in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Contract No. AID-306-C-17-00001, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of AECOM International Development, Inc., the U.S. Agency for International Development / Afghanistan, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 1, 2019 on our consideration of AECOM'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 AECOM's internal control over financial reporting and compliance.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California
July 1, 2019

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

Special Purpose Financial Statement

For the Period December 7, 2016 through September 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						(6)
AID-306-C-17-00001	\$ 57,680,938	\$ 10,467,195	\$ -	\$ -	\$ -	
Total revenues	<u>57,680,938</u>	<u>10,467,195</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						(7)
Direct Labor/ ODCs	██████████	██████████	██████████	-	██████████	(A)
Indirect Costs	██████████	██████████	██████████	-	██████████	(B)
Fees	<u>██████████</u>	<u>██████████</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total costs incurred	<u>57,680,938</u>	<u>10,467,195</u>	<u>\$ 1,395,553</u>	<u>\$ -</u>	<u>\$ 1,395,553</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				(8)

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

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

Notes to the Special Purpose Financial Statement²

(1) **Background**

The purpose of the Afghanistan Strengthening Watershed and Irrigation Management ("SWIM") project is to support sustainable agriculture led economic growth by increasing the productive use of water and strengthening water resource management. The specific objectives are 1) Increase the sustainable and productive use of water in agriculture in targeted areas, 2) Strengthen the water regulatory framework, and 3) Strengthen capacity of local entities to manage water resources.

(2) **Basis of Presentation**

The accompanying Special Purpose Financial Statement ("SPFS") includes costs incurred under Contract Number AID-306-C-17-00001 for the Afghanistan SWIM project for the period December 7, 2016 through September 30, 2018. Because the SPFS presents only a selected portion of the operations of the company, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of AECOM International Development, Inc. The information in this SPFS is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract AID-306-C-17-00001. Therefore, some amounts presented in this SPFS may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) **Basis of Accounting**

Expenditures reported on the SPFS are reported on an accrual basis of accounting. Such expenditures are recognized following cost principles contained in Title 48, Part 31 of the Code of Federal Regulations.

(4) **Currency**

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

(5) **Foreign Currency Conversion Method**

The SPFS contains expenses translated into U.S. dollars. Expenses paid in Afghani (local currency) are converted into U.S. dollars (reporting currency) by using the weighted average monthly rate, which is calculated based on monthly transfers from the U.S. bank account to the local currency bank account. Currency fluctuations between monthly rates are not included as an expense to the project.

² The Notes to the Special Purpose Financial Statement are the responsibility of AECOM.

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

Notes to the Special Purpose Financial Statement

(6) Revenue

Revenues on the SPFS represent the amount of funds to which AECOM International Development, Inc. is entitled to receive from the U.S. Agency for International Development / Afghanistan for allowable, eligible costs incurred under the contract and fixed fees earned, during the period of performance.

(7) Costs Incurred by Budget Category

The budget costs contained in the SPFS reflect the budgeted values of the base period for the North region as of modification number 3 to the contract, issued August 14, 2018 and does not include any options.

(8) Balance

The balance presented on the SPFS represents the difference between revenues earned and costs incurred. An amount greater than \$0 would reflect that revenues have been earned which exceed the costs incurred or charged to the contract. An amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and the amount of revenue earned may be made.

(9) Program Status

The SWIM Program remains active. The period of performance for the contract is scheduled to conclude on December 6, 2021 as noted in modification number 3 dated August 14, 2018.

(10) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the December 7, 2016 through September 30, 2018 period covered by the SPFS. Management has performed their analysis through July 1, 2019.

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

Notes to Questioned Costs Presented on the Special Purpose Financial Statement³

For the Period December 7, 2016 through September 30, 2018

(A) Direct Labor/ODCs

AECOM International Development, Inc. ("AECOM") reported direct labor/other direct costs ("ODCs") in the amount of [REDACTED] for the period from December 7, 2016 through September 30, 2018.

During our audit of these costs, we noted:

(1) AECOM was unable to provide evidence of two employees and one consultant meeting the pre-deployment requirements of contract, which resulted in total ineligible cost of [REDACTED] being questioned, (See Finding 2019-01);

(2) AECOM was unable to provide evidence of compliance with Fly America Act requirements of contract, which resulted in total ineligible cost of [REDACTED] being questioned, (See Finding 2019-02); and

(3) AECOM incorrectly claimed a cost to the contract while entering payroll data, which resulted in total ineligible cost of [REDACTED], (See Finding 2019-03).

(B) Indirect Costs

AECOM reported Indirect Costs in the amount of [REDACTED] for the period from December 7, 2016 through September 30, 2018.

The indirect costs associated with the questioned costs in Note A total [REDACTED].

³ The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
AECOM International Development, Inc.
Arlington, Virginia

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("SPFS" or the "Statement") of AECOM International Development, Inc. ("AECOM") representing revenues received and costs incurred under Contract No. AID-306-C-17-00001 with the U.S. Agency for International Development / Afghanistan ("USAID") for the period December 7, 2016 through September 30, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 1, 2019. 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

AECOM's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 2 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

(Continued)

- 13 -

In planning and performing our audit of the Special Purpose Financial Statement of AECOM for the period December 7, 2016 through September 30, 2018, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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 identified two findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-02 and 2019-03 which are considered to be deficiencies.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-01 that we consider to be a material weakness.

AECOM's Response to Findings

AECOM's response to the findings identified in our audit is included verbatim in Appendix A. AECOM'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 the AECOM'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.

(Continued)

Restriction on Use

This report is intended for the information of AECOM International Development, Inc., the U.S. Agency for International Development / Afghanistan, 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.

Conrad LLP

Lake Forest, California
July 1, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
AECOM International Development, Inc.
Arlington, Virginia

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of AECOM International Development, Inc. ("AECOM"), representing revenues received and costs incurred under Contract No. AID-306-C-17-00001 with the U.S. Agency for International Development / Afghanistan ("USAID") for the period December 7, 2016 through September 30, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 1, 2019. 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.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract and corresponding modifications are the responsibility of the management of AECOM.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AECOM'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 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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Findings 2019-01, 2019-02, and 2019-03.

AECOM's Response to Findings

AECOM's response to the findings identified in our audit is included verbatim in Appendix A. AECOM'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 AECOM International Development, Inc., the U.S. Agency for International Development / Afghanistan, 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California
July 1, 2019

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

Finding 2019-01: Lack of evidence to support that employees and consultants meet the pre-deployment requirements per the contract.

Nature of Finding: Non-Compliance and Internal Control – Material Weakness

Condition: Conrad judgmentally selected three months of payroll records for 10 United States employees' and 25 consultants to determine if the costs incurred were adequately supported and allowable. During testing of employees' and consultants' pre-deployment requirements under the terms of the contract and AECOM's Long-Term Technical Assistance ("LTTA") manual, we noted the following:

- AECOM could not provide evidence of medical clearance prior to pre- deployment for two employees, who were in Afghanistan for over 60 days during the period of our audit.
- AECOM could not provide a written statement from the doctor for medical clearance prior to pre-deployment for one consultant who was in Afghanistan for less than 60 days during the period of our audit.

Despite not having documentation of the medical clearance, required by contract terms and company policy, these three individuals were deployed to Afghanistan in support of the program.

Criteria: Per AIDAR 48 CFR CHAPTER 7, section 752.7033 (*Physical Fitness, JUL 1997*), incorporated into Contract No. AID-306-C-17-00001 by reference, paragraphs (a) and (b) state the following, copied here in part:

“(a) Assignments of less than 60 days in the Cooperating Country. The contractor shall require employees being assigned to the Cooperating Country for less than 60 days to be examined by a licensed doctor of medicine. The contractor shall require the doctor to provide to the contractor a written statement that in his/her medical opinion the employee is physically qualified to engage in the type of activity for which he/she is employed and the employee is physically able to reside in the country to which he/she is assigned.

(b) Assignments of 60 days or more in the Cooperating Country. (1) The contracting officer shall provide the contractor with a reproducible copy of the “USAID Contractor Employee Physical Examination Form”. ... The contractor shall have the employee and all authorized dependents obtain a physical examination from a licensed physician, who will complete the form for each individual. ...”

AECOM's SWIM LTTA Manual, section 3 (*Physical Fitness*) states the following, copied here in part:

“Purpose:

This section outlines AECOM's physical fitness policy for employees and consultants traveling to Afghanistan.

(Continued)

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

Policy:

An employee or consultant who travels overseas must demonstrate that s/he is physically qualified to engage in the type of activity for which s/he is retained and is physically able to reside in Afghanistan to which s/he is assigned to.

A LTTA employee is required to receive a one-time medical examination by a licensed physician. The physician must complete a "USAID Contractor Employee Physical Examination Form.

...

Prior to departure, employees must submit the USAID medical exam forms directly to the Program Coordinator who will then forward the form to the Department of Human Resources.

Per 48 CFR CHAPTER 1, section 52.215-2 (Audit and Records--Negotiation), incorporated into Contract No. AID-306-C-17-00001 by reference, paragraphs (a) (d) and (f) state the following, copied here in part:

“(a) As used in this clause, “records” includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form.

...

(d) Comptroller General.-

a. (1) The Comptroller General of the United States, or an authorized representative, shall have access to and the right to examine any of the Contractor’s directly pertinent records involving transactions related to this contract or a subcontract hereunder and to interview any current employee regarding such transactions.

...

(f) *Availability*. The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs(a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (FAR), or for any longer period required by statute or by other clauses of this contract.

...”

Cause: AECOM did not follow the physical fitness clause incorporated into the USAID contract by reference and per its policy due to inadequate internal control procedures surrounding management oversight. AECOM has not yet provided a response as to why they cannot provide the evidence. It appears that the clearance was either not performed or the evidence of the check cannot be located due to a lack of adequate supervisory oversight.

(Continued)

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

Effect: AECOM's inability to provide the evidence of the employees' and consultant's medical clearances resulted in ineligible costs claimed to the contract. Additionally, AECOM's failure to ensure that all program personnel were sufficiently fit to perform work in Afghanistan created risks for program performance.

Questioned Costs: The labor costs including fringe associated with all these employees and consultant costs totaled [REDACTED] and overhead of [REDACTED], resulted in total ineligible costs of \$1,389,710.

Recommendation:

- (1) We recommend that AECOM provide evidence to USAID showing that these employees and one consultant met the pre-deployment medical clearance requirements, or, return \$1,389,710 of ineligible costs.
- (2) We recommend that AECOM updates its internal control procedures to ensure adequate oversight over staff's adherence to contract pre- deployment requirements, and its required physical fitness policy.

(Continued)

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

Finding 2019-02: Insufficient evidence to support compliance with Fly America Act

Nature of Finding: Non-Compliance and Internal Control – Deficiency

Condition: Conrad judgmentally selected 50 sample transactions to determine if travel costs claimed were adequately supported and allowable. For three out of the 50 transactions tested, AECOM was unable to provide sufficient documentation to support that it had met the requirements of the Fly America Act, including a lack of evidence of travel booked with a U.S. Flag air carrier. In addition, AECOM lacked evidence of documentation to support its reasoning for choosing a non-U.S. Flag air carrier.

Criteria: AECOM's SWIM LTТА Manual, Section 7 (*Travel and Leave Policy*) states the following, copied here in part:

"Tickets must be: ...

- Fly America compliant: This Act requires travelers to transit the United States on American air carriers, American code-share tickets, or under an Open Skies Agreement if properly justified. Fly America compliance applies to all USG travel including contractors.

...

All finalized travel itineraries must be shared with the following:

- Director of Security
- Senior Procurement and Logistics Officer
- Chief of Party
- HO Program Coordinators
- HO Program Manager"

Per 48 CFR CHAPTER 1, Number 52.247-63 (*Preference for U.S.-Flag Air Carriers, JUN 2003*), incorporated into Contract No. AID-306-C-17-00001 by reference, paragraphs (b) through (d) state the following:

"... (b) Section 5 of the International Air Transportation Fair Competitive Practices Act of 1974 (49 U.S.C. 40118) (Fly America Act) requires that all Federal agencies and Government contractors and subcontractors use U.S.-flag air carriers for U.S. Government-financed international air transportation of personnel (and their personal effects) or property, to the extent that service by those carriers is available. It requires the Comptroller General of the United States, in the absence of satisfactory proof of the necessity for foreign-flag air transportation, to disallow expenditures from funds, appropriated or otherwise established for the account of the United States, for international air transportation secured aboard a foreign-flag air carrier if a U.S.-flag air carrier is available to provide such services.

(Continued)

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

(c) If available, the Contractor, in performing work under this contract, shall use U.S.-flag carriers for international air transportation of personnel (and their personal effects) or property.

(d) In the event that the Contractor selects a carrier other than a U.S.-flag air carrier for international air transportation, the Contractor shall include a statement on vouchers involving such transportation essentially as follows:

Statement of Unavailability of U.S.-Flag Air Carriers:

International air transportation of persons (and their personal effects) or property by U.S.-flag air carrier was not available or it was necessary to use foreign-flag air carrier service for the following reasons (see section 47.403 of the Federal Acquisition Regulation). ...”

Per 48 CFR CHAPTER 1, section 52.215-2 (Audit and Records--Negotiation), incorporated into Contract No. AID-306-C-17-00001 by reference, paragraphs (a) (d) and (f) state the following, copied here in part:

“(a) As used in this clause, “records” includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form.

...

(d) Comptroller General.-

b. (1) The Comptroller General of the United States, or an authorized representative, shall have access to and the right to examine any of the Contractor’s directly pertinent records involving transactions related to this contract or a subcontract hereunder and to interview any current employee regarding such transactions.

...

(f) *Availability.* The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs(a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (FAR), or for any longer period required by statute or by other clauses of this contract.

...”

Cause: AECOM did not follow federal regulation FAR 52.247-63, Preference for U.S. - Flag Carriers, incorporated into the USAID contract by reference nor did it follow its own travel policy when booking these flights. AECOM provided a price analysis to show that the costs of flying a foreign carrier was competitive with flying a US carrier. However, there was no further justification as to why it chose the foreign carrier. AECOM has not provided sufficient training to educate staff on the correct process for booking travel and maintaining supporting travel documentation.

(Continued)

Effect: AECOM's inability to provide the sufficient evidence of compliance with the Fly America Act resulted in ineligible costs claimed to the contract and the government may have paid for ineligible costs.

Questioned Costs: The travel costs associated with these three samples are [REDACTED] and overhead of [REDACTED], resulted in total ineligible costs of \$4,823.

Recommendation:

- (1) We recommend that AECOM either provide evidence to USAID showing that these travel costs complied with the Fly America Act requirement or return \$4,823 of ineligible costs.
- (2) We recommend that AECOM provided training to staff responsible for booking travel that includes training related to maintaining supporting documentation related to travel costs.
- (3) We recommend that AECOM designs and implements a process to ensure that adequate internal controls are in place to comply with the company's travel policy and the Fly America Act.

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

Finding 2019-03: Incorrect personnel cost claimed.

Nature of Finding: Non-Compliance; Internal Control – Deficiency

Condition: Conrad judgmentally selected 80 Cooperating Country Nationals (“CCNs”) employee samples for testing. The sample consisted of 37 CCNS for 4 pay periods, which was selected to determine if the costs incurred were adequately supported and allowable. Of the 80 CCN payroll samples tested, one of the employee’s salary claimed was more than the actual paid salary amount. This resulted in an overcharge of [REDACTED].

Criteria: Per 48 CFR CHAPTER 7, Number 31.201-2, Determining Allowability states the following:

“(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) ...
- ...

(d) A contractor is responsible for accounting for costs appropriately and maintaining records...adequate to demonstrate that costs claimed have been incurred.”

Additionally, 48 CFR CHAPTER 1, Number 52.216-7 Allowable Cost and Payment states the following:

“(a) Invoicing-

- (1) The Government will make payments to the contractor... in amounts determined to be allowable by the Contracting Officer in accordance with FAR Subpart 31.2. ...”

Cause: The payroll amount was booked by the home office based on a monthly field office payroll report but was subsequently entered into AECOM’s main accounting system more than the actual paid amount

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Schedule of Findings and Questioned Costs

due to human entry error. AECOM lacked adequate training of its staff and internal controls to provide oversight of its payroll process.

Effect: Incorrect payroll data resulted in ineligible costs claimed to the contract and government may have paid for ineligible costs.

Questioned Costs: Total questioned incorrect payroll charge of [REDACTED] and associated overhead of [REDACTED] resulted in a total ineligible cost of \$1,020.

Recommendation:

- (1) We recommend that AECOM refund the overcharged amount of personnel cost totaling \$1,020 to USAID.
- (2) We recommend that AECOM provide training to its home office staff to help ensure that incorrect charges are properly detected.

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Status of Prior Audit Findings

We requested from AECOM, as well as conducted a search online on various governmental websites, including SIGAR, USAID, and other applicable Federal agencies, for any prior engagements including audits, reviews, and evaluations pertinent to AECOM's activities. We identified three prior engagements below that had seven findings that could have a material effect on the SPFS.

We reviewed the corrective actions taken to address these seven findings and recommendations. Our review procedures included a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. The findings and status of corrective actions are listed below:

Report: SIGAR Financial Audit 14-94

The report identified five findings and recommendation that can have a material effect on the SPFS as follows:

2014-1: Inadequate Controls in Place to Prevent Documentation Loss.

2014-2: Ineffective Controls over Payments

2014-3: Ineffective Review for Insurance Premiums Incurred

2014-4: Non-Compliance with Contract Clause

2014-5: Non-Compliance with Federal Acquisition Regulations

Status: SIGAR engaged another audit firm to conduct three subsequent audits of AECOM (SIGAR Financial Audit 15-75, 15-76, and 16-8). These five issues were identified in the prior audit findings and recommendations sections of each of these three subsequent audit reports. The audit firm concluded, based on their testing, that the findings were not repeated, and corrective actions had been implemented. During our onsite visit, we reviewed the policies and procedures pertaining to these issues to ensure adequate procedures were in place. In addition, during our testing under this audit, we did not note similar issues in the areas that were related to these findings. These issues were not repeated.

Report: SIGAR Financial Audit 15-75

The report identified one finding and recommendation that could have a material effect on the SPFS:

2015-01: Unsupported Questioned Costs Identified in Payroll and Other Direct Costs and Exchange Rate was Inaccurately Applied

Status: SIGAR engaged another audit firm to conduct a subsequent audit (SIGAR Financial Audit 16-8) on AECOM on another project and this issue was identified in the prior audit findings and recommendations section of the report. The audit firm concluded, based on their review that the findings were not repeated, and corrective action had been implemented. During our onsite visit, we reviewed the policies and procedures pertaining to these issues to ensure adequate procedures were in place. In addition, during our testing under this audit, we did not note similar issues where the amount claimed was not supported by documentation or the exchange rate was applied incorrectly. These issues were not repeated.

Report: SIGAR Financial Audit 15-76

The report identified one finding and recommendation that could have a material effect on the SPFS as follows:

2015-01: Unsupported Questioned Costs in Salary, Fringe Benefits, and Direct Facility Costs and Exchange Rate was Inaccurately Applied

Status: SIGAR engaged another audit firm to conduct a subsequent audit of AECOM (SIGAR Financial Audit 16-08) for another project and this issue was identified in the prior audit findings and recommendations section of the report. The audit firm concluded, based on their review that the findings were not repeated, and corrective actions had been implemented. During our onsite visit, we reviewed the policies and procedures surrounding these issues to ensure adequate procedures were in place. In addition, during our testing under this audit, we did not note similar issues where the amount claimed was not supported by documentation or the exchange rate was applied incorrectly. These issues were not repeated.

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

AECOM International Development, Inc. Response to Findings

Included on the following pages is AECOM's response received to the findings identified in this report.



AECOM International Development +1 703 682 4900 tel
 3101 Wilson Boulevard +1 703 682 4901 fax
 Suite 900
 Arlington, Virginia 22201, USA
 www.aecom.com

June 24, 2019

Jacque Rogers, Manager
 Conrad LLP
 23161 Lake Center Drive
 Suite 200
 Lake Forest, CA 92630

Subject: AECOM AID Response to SIGAR - FINANCIAL AUDITS OF COSTS INCURRED
 AECOM INTERNATIONAL DEVELOPMENT (AECOM) Strengthening Watershed and Irrigation
 Management (SWIM) Program - Contract No. 306-AID-306-C-17-00001

Reference: USAID SWIM Contract 306-AID-306-C-17-00001

Dear Ms. Rogers,

AECOM takes exception to the overall questioned costs of the audit performed by Conrad LLP. The audit report produced significant findings, however they are not in alignment with the cited AIDAR and the services performed.

Finding 2019-01 Lack of evidence to support that employees and consultants meet the pre-deployment requirements per the contract.

AECOM acknowledges that it did not provide Conrad LLP (Conrad) with the medical examination documents required under AIDAR 752.7033 Physical Fitness.

Recommendation:

“(1) We recommend that AECOM provide evidence to USAID showing that these employees and one consultant met the pre-deployment medical clearance requirements, or, return \$1,648,118 of ineligible costs.

(2) We recommend that AECOM updates its internal control procedures to ensure adequate oversight over staff’s adherence to contract pre-deployment requirements, and its required physical fitness policy.

Response:

AIDAR 752.7033 Physical Fitness was cited in part within the audit report. The continuation of section (a) that was not cited states:

Under a cost reimbursement contract, if the contractor has no written statement of medical opinion on file prior to the departure for the Cooperating Country of any employee and such employee is unable to perform the type of activity for which he/she is employed or cannot complete his/her tour of duty because of any physical disability (other than physical disability arising from an accident while employed under this contract), the contractor shall be responsible for



returning the disabled employee to his/her point of hire and providing a replacement at no additional cost to the Government. In addition, in the case of a cost reimbursement contract, the contractor shall not be entitled to reimbursement for any additional costs attributable to delays or other circumstances caused by the employee's inability to complete his/her tour of duty.

The employees ([REDACTED]) and consultant [REDACTED] have performed the services they were assigned on this contract. Invoices have listed these workers, including voucher SWIM-004 dated 5/10/17 which also itemizes the work permit for [REDACTED] and an in-country visa extension for [REDACTED] joined the team later and AECOM does have medical records which are provided as an enclosure for one employee. He also performed his duties and voucher SWIM-0010 is where his labor is first billed. A signed medical statement is also enclosed for the consultant [REDACTED], although not previously provided to the auditors.

It is AECOM's position that services were provided and USAID acknowledged the performance in accepting the invoices and project "Deliverable Acceptance Forms" and it is entitled for payment of these services. In accordance with AIDAR 752.7033, AECOM acknowledges that if the worker was unable to perform the duties assigned, it would not have billed the government for the return travel. AECOM agrees to review the onboarding practices to ensure adequate oversight over staff's adherence to contract pre-deployment requirements, and its required physical fitness policy.

Finding 2019-02 Insufficient evidence to support compliance with Fly America Act.

AECOM disagrees with the findings of questioned travel costs for three samples in the amount of [REDACTED] and overhead of [REDACTED] for questioned costs of \$4,823.

Recommendation:

- (1) We recommend that AECOM either provide evidence to USAID showing that these travel costs complied with the Fly America Act requirement or return \$4,823 of ineligible costs.*
- (2) We recommend that AECOM provided training to staff responsible for booking travel that includes training related to maintaining supporting documentation related to travel costs.*
- (3) We recommend that AECOM designs and implements a process to ensure that adequate internal controls are in place to comply with the company's travel policy and the Fly America Act. Additionally, the updated process should include a supervisory review of supporting documentation for travel costs claimed under the contract.*

Response:

The audit consisted of 50 travel samples for which 3 legs of travel were identified as not having the proper documentation or notation of compliance with the Fly America



Act. AECOM feels these legs of travel, though not noted as to why, did in fact comply with the Fly America Act. AECOM does agree to remind travel arrangers of the requirements for the Fly America Act. AECOM does not believe there is a cost-benefit for adding additional overhead personnel requirements in supervisory review, however the personnel with the authority to make travel arrangements will again be reminded of the requirement.

Finding 2019-03 Incorrect personnel cost claimed

AECOM acknowledges there was a data entry error in the amount of [REDACTED], which when overhead is applied at [REDACTED] created an error of \$1,020, but disagrees that AECOM lacked adequate training of its staff and internal controls to provide oversight of its payroll process.

Recommendation:

(1) We recommend that AECOM refund the overcharged amount of personnel cost totaling \$1,020 to USAID.

(2) We recommend that AECOM provide training to its home office staff as well as develop internal controls to provide management oversight of its payroll process to help ensure that incorrect charges are properly detected. Furthermore, we recommend that these internal controls have adequate checks and balances to reduce similar errors from recurring..

Response:

AECOM recognizes there was a data entry error and will remind administrative data entry personnel to validate their totals. AECOM feels this is an insignificant amount, however if USAID would like AECOM will issue a credit in the full amount of \$1,020.

AECOM has continued to support and will continue to support USAID to ensure quality service and adherence to all contract requirements.

Sincerely,

Dean D. Luchsinger
 Vice President
 Federal Accounting & Compliance
 AECOM
 300 Lakeside Drive
 Suite 400
 Oakland, CA. 94912, USA
 510-874-3188 Office
 510-331-3925 Mobile

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Auditor's Rebuttal to AECOM's Responses to the Audit Report

AECOM disagreed or partially disagreed with the 3 findings and recommendations. We have reviewed management's responses and provided the following rebuttals to which AECOM disagreed with the findings.

- 2019-01:

AECOM Overall Response: AECOM acknowledged that the required medical examination documentation was not provided to us. However, AECOM noted that if any of the three employees / one consultant were unable to perform their duties under the contract due to physical disability, then AECOM would be responsible for returning the employee/consultant home and providing a replacement.

Auditor Overall Rebuttal: AECOM's suggestion that no medical issues arose and that the company would have replaced the employee had some medical issue emerged suggests a misunderstanding of the purpose of a pre-deployment medical examination. It also raises concerns about the reliability of AECOM employees to be deployed in future contingency operations.

AECOM Detailed Response: Consultant, [REDACTED] – AECOM provided the medical letter for the consultant again, that was provided to us during fieldwork.

Auditor Detailed Rebuttal: The letter provided is not on the doctor's letterhead and lacked a date, and what tests were performed. These omissions create doubt about the validity of that letter.

AECOM Detailed Response: Employee, [REDACTED] - AECOM provided medical documentation for [REDACTED], which was not provided to us previously. The previously provided documentation was a single page of a standardized form signed by a different doctor, but we could not verify the date as it was missing from the form.

Auditor Detailed Rebuttal: The supporting medical examination documentation for [REDACTED], provided with the management response, has been accepted. Although our finding, and recommendations remain largely unchanged, identified questioned costs have been reduced by \$258,408 to a total of \$1,389,710 to account for the costs associated with [REDACTED]. The questioned costs for the remaining 2 employees, that AECOM did not dispute and the 1 consultant remain unchanged.

- 2019-02: AECOM disagrees with the questioned costs, stating that AECOM complied with the Fly America Act but did not maintain documentation in support of that claim. AECOM also disagrees with the recommendation that supervisory review is necessary to ensure compliance with the Fly America Act due to the cost-benefit analysis conducted.

(Continued)

AECOM INTERNATIONAL DEVELOPMENT, INC.

Financial Audit of Costs Incurred under
Contract No. AID-306-C-17-00001

For the Period December 7, 2016 through September 30, 2018

Auditor's Rebuttal to AECOM's Responses to the Audit Report

(Continued)

Auditor Rebuttal: As no documentation was maintained to demonstrate AECOM's compliance with the Fly America Act, we cannot readily determine if AECOM complied with the Fly America Act. If supervisory review was conducted to ensure compliance with Fly America Act, AECOM could have identified and corrected these issues. Accordingly, our finding, identified questioned costs remain unchanged. However, we did revise the cause and recommendations.

- 2019-03: AECOM agrees with this finding that there was a data entry error occurred. However, disagrees that the lack of adequate training and internal control led to this data entry error.

Auditor Rebuttal: AECOM did not review and communicate to the auditor the root cause of this coding error. In the absence of a specific cause, it can be said that had the staff been adequately trained s/he could have prevent making this error and had someone reviewed the data entry, the error would have been detected. Accordingly, our finding, identified questioned costs, cause and recommendations remain unchanged.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

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