

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 20-01 Financial Audit

USAID's Afghanistan Workforce Development Program: Audit of Costs Incurred by Creative Associates International Inc.



OCTOBER
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 5, 2012, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee contract to Creative Associates International Inc. (CAII) to support the Afghanistan Workforce Development Program. The program's goal was to increase employment opportunities and compensation for Afghan men and women through training, business development support, and job placement services. The original contract period of 48 months had a base period of 18 months and two option periods with an estimated cost of \$22.7 million. USAID modified the contract 17 times, increasing the budget to \$44.8 million and extending the completion date from April 4, 2015, to June 30, 2018.

SIGAR's financial audit, performed by Williams, Adley & Company-DC LLP (Williams Adley), reviewed \$18.5 million in expenditures that CAII reported from October 1, 2015, through June 30, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in CAII'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 CAII has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of CAII's Special Purpose Financial Statement (SPFS). See Williams Adley's report for the precise audit objectives.

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

October 2019

USAID's Afghanistan Workforce Development Program: Audit of Costs Incurred by Creative Associates International Inc.

SIGAR 20-01-FA

WHAT THE AUDIT FOUND

Williams Adley identified one deficiency in CAII's internal controls and one instance of noncompliance with the terms of the contract or applicable regulations. Williams Adley found that CAII did not maintain inventory disposition records for three metal shipping containers that they charged to the contract.

Because of the internal control deficiency and instance of noncompliance, Williams Adley identified \$16,368 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. Williams Adley did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Other Direct Costs	\$0	\$16,368	\$16,368
Totals	\$0	\$16,368	\$16,368

Williams Adley identified two prior audit reports with four findings and recommendations that could be material to the SPFS and concluded that CAII had taken adequate corrective action on the recommendations.

Williams Adley issued an unmodified opinion on CAII'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, \$16,368 in questioned costs identified in the report.
2. Advise CAII to address the report's one internal control finding.
3. Advise CAII to address the report's one noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 3, 2019

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

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Williams, Adley & Company-DC LLP (Williams Adley) to audit the costs incurred by Creative Associates International Inc. (CAII) under a U.S. Agency for International Development (USAID) cost-plus-fixed-fee contract to support to the Afghanistan Workforce Development Program.¹ The program's goal was to increase employment opportunities and compensation for Afghan men and women through training, business development support, and job placement services. Williams Adley's audit covered \$18.5 million in costs and fixed fees that CAII reported from October 1, 2015, through June 30, 2018. Our contract with Williams Adley 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, \$16,368 in total questioned costs identified in the report.**
- 2. Advise CAII to address the report's one internal control finding.**
- 3. Advise CAII to address the report's one noncompliance finding.**

The results of Williams Adley's audit are discussed in detail in the attached report. We reviewed Williams Adley's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on CAII's Special Purpose Financial Statement. We also express no opinion on the effectiveness of CAII's internal control or compliance with the contract, laws, and regulations. Williams Adley is responsible for the attached auditor's report and conclusions expressed therein. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with 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-146)

¹ The contract number is AID-306-C-12-00007.

**OFFICE OF THE
SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION**

Audit F-146

Financial Audit of Costs Incurred

by

Creative Associates International Inc.

Under

Contract Number AID-306-C-12-00007

For the Period

October 1, 2015 through June 30, 2018

Submitted by



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Transmittal Letter

August 16, 2019

Board of Directors
Creative Associates International Inc.
5301 Wisconsin Ave NW, Suite 700
Washington, DC 20015

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2500 Crystal Drive
Arlington, VA 22202

We hereby provide to you our final report, which reflects results from the procedures we completed during our audit of Creative Associates International Inc.'s (CAII) contract number AID-306-C-12-00007 with the United States Agency for International Development for the Afghanistan Workforce Development Program.

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, Report on Internal Control or Report on Compliance.

When preparing our reports, we considered comments, feedback and interpretations provided by CAII and SIGAR, in writing and orally, throughout the audit. CAII's responses to the audit reports and our corresponding auditor analysis are incorporated herein following our audit reports.

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

Sincerely,

A handwritten signature in blue ink that reads 'Jocelyn Hill'.

Jocelyn Hill, CPA
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

1030 15th Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

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Summary

Background

On April 5, 2012, the United States Agency for International Development (USAID) awarded a cost-plus-fixed-fee contract to Creative Associates International Inc. (CAII) to support the Afghanistan Workforce Development Program (AWDP). The estimated cost for the initial contract was \$21.7 million, and the fixed fee was \$1 million, bringing the total to \$22.7 million. The original contract period of 48 months consisted of a base period of 18 months, an option year for 18 months, and a second option year for 12 months. After 17 contract modifications, the total award increased to \$44.8 million, including a fixed fee of \$1.6 million, and the expected completion date changed from April 4, 2015 to June 30, 2018.

The program's goal was to increase employment opportunities and compensation for Afghan men and women through training, business development support, and job placement services. Activities focus on two components: (1) improving the quality and accessibility of technical and vocational education and training to vulnerable groups such as the unemployed; and (2) improving the quality and accessibility of business training programs, continuing education, and professional development. CAII's target was to train and place 25,000 people—25 percent of them women—in sustainable jobs.

Table 1: CAII Contract with Modifications

Contract Activity	Date	Purpose
Base Year	04/05/2012	Establishment of contract
Modification 1	04/17/2012	Realigning the contract end date
Modification 2	09/08/2012	Realigning the budget
Modification 3	12/18/2012	Realigning the budget
Modification 4	3/10/2013	Incremental funding
Modification 5	7/23/2013	Exercise Option Year
Modification 6	12/5/2013	Revise budget table
Modification 7	12/28/2013	Incremental funding
Modification 8	3/27/2014	Administrative Change
Modification 9	4/16/2014	Administrative Change
Modification 10	7/7/2014	Increase TEC and incremental funding
Modification 11	12/8/2014	Exercise Option Year
Modification 12	4/01/2015	Incremental Funding
Modification 13	9/29/2015	Administrative Change
Modification 14	3/3/2016	Incremental Funding and extended PoP
Modification 15	6/29/2016	Increase TEC, incremental funding, extend completion date

Contract Activity	Date	Purpose
Modification 16	2/16/2017	Incremental funding
Modification 17	5/14/2018	Realign Award Budget

Worked Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Williams, Adley and Company-DC, LLP (Williams Adley) to audit costs incurred under USAID contract AID-306-C-12-00007 and associated modifications awarded to CAII. This audit period covered \$18.5 million in expenditures from October 1, 2015 through closeout on June 30, 2018.

Objectives

The objectives of the audit are to:

Audit Objective 1 - Special Purpose Financial Statement (SPFS)

Express an opinion on whether the SPFS for the CAII contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of CAII's internal controls related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether CAII 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 contract 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 CAII 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

In general, our scope of work includes the USAID contract AID-306-C-12-00007 and related modifications executed for the period between October 1, 2015 and June 30, 2018 as reported on the SPFS. The audit was limited to those matters pertinent to the contract

that have a direct and material effect on the SPFS and included an evaluation of the presentation, content and records supporting the SPFS. The following areas were included within the audit program for detailed evaluation:

- i. Administrative Procedures and Fraud Risk Assessment
- ii. Budget Management
- iii. Cash Management
- iv. Disbursement and Financial Reporting
- v. Procurement and Inventory Management

Our audit was conducted to form an opinion on the SPFS in accordance with the Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents and Summary are presented for informational and organizational content purposes and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the USAID funded program, and accordingly, we do not express an opinion or provide any assurance on it.

Methodology

We conducted our audit in accordance with generally accepted auditing standards, and generally accepted government auditing standards as published in the Government Accountability Office's *Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the SPFS of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of CAII's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the SPFS.

To meet the audit objectives, we prepared an audit plan for the engagement.

For audit objective 1, we reviewed transactions for the period from October 1, 2015 to June 30, 2018 and subsequent events and information that may have a significant impact on the SPFS for the audit period. We used both statistical and judgmental sampling techniques to select direct labor, subcontractor agreement/consultant costs, travel, and other direct cost samples to test for allowability of incurred costs, and reviewed procurement records to determine cost reasonableness. The scope of our audit reflects

our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

For audit objective 2, we reviewed applicable background materials, including cooperative agreements, contracts, auditee financial progress reports, USAID regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. We conducted our review to gain a thorough understanding of the control environment. We interviewed management and reviewed business processes to determine if critical internal controls were in place that mirrored best practices such as sufficient management oversight of business processes, proper segregation of duties, documented policies and procedures, robust financial management systems, and sufficient monitoring of controls to ensure effective implementation thereof. We assessed the control risk for sampling and testing purposes.

For audit objective 3, we performed compliance testing including, but not limited to: determination of allowable costs under Federal Acquisition Regulation (FAR) and Agency for International Development Acquisition Regulation (AIDAR) cost principles; validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; testing cash management for funding to ensure it does not exceed the program's immediate cash needs requirements and confirm excess cash has been returned to the US Government; verify incurred cost eligibility; confirm equipment and real property management and disposal in accordance with an approved disposition plan; ensure expenditures comply with the period of availability of the Federal funds; ensure that procurement activities comply with full and open competition standards or provide justification for noncompetitive bids when applicable, and that suspension and debarment of the subcontractor was considered in the award decision; program income is reported and accounted for separately from donor funds; and financial reporting is accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse and illegal acts.

For audit objective 4, if prior audits indicated a need for corrective action to be taken by CAII, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Summary of Results

Our audit of the costs incurred by CAII identified the following matters:

We issued an unmodified opinion on CAII's Special Purpose Financial Statement.

We identified \$16,368 in questioned costs because the costs were either ineligible or unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations, are unnecessary or unreasonable expenditure of funds or are not award related. Unsupported costs are costs

that are not supported with adequate documentation or did not have required prior approvals or authorizations.

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered CAII's internal control over financial reporting and performed tests of those controls. We also performed tests of CAII's compliance with certain provisions of the contract and other laws and regulations, noncompliance with which could have a direct and material effect on the SPFS. The results of our tests disclosed one deficiency in CAII's internal control over financial reporting and one instance of noncompliance as required under *Government Auditing Standards*. Where internal control and noncompliance findings pertained to the same matter, they were consolidated within a single finding.

Summary of Findings and Questioned Costs

Finding	Description	Classification	Ineligible Cost	Unsupported Cost	Total Questioned Costs (USD)
2019-01	Missing Inventory Disposition Documentation	Deficiency in Internal Control and Noncompliance	\$0	\$16,368	\$16,368

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 during our testing.

Status of Prior Audit Findings

We requested and researched prior audits, reviews and assessment pertinent to CAII's activities under this contract. We identified two prior audit reports that were assessed for purposes of determining if there were findings and corrective actions requiring follow-up.

We reviewed one prior audit report of the AWDP program, issued on February 21, 2017 and conducted on behalf of USAID Office of Inspector General (OIG). The financial audit of costs incurred by CAII for Afghanistan under the AWDP per Contract Number AID-306-C-12-00007 was for the period from October 1, 2014, to September 30, 2015.

We identified one prior financial audit of costs incurred by CAII in Afghanistan conducted by SIGAR, report number 14-18-Financial Audit, dated January 7, 2014. That report was an audit of costs incurred by CAII per Task Order No. 306-M-00-06-00508-00 for the Period January 27, 2006 through August 31, 2011; and Cooperative Agreement No. 306-A-00-10-00513-00 for the Period March 7, 2010 through March 6, 2012.

The reports had four findings that may have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. Accordingly, we conducted follow-up procedures including discussions with management, reviewed

evidence of revised policies, procedures or other applicable recommended actions and performed testing of similar matters during our current audit. As a result, we concluded that CAII has taken adequate corrective action on the four findings and we did not observe evidence of those findings during this audit. Based on our review, we determined that all of these prior audit findings were adequately addressed and did not have a material effect on the Statement or other financial data significant to the audit objectives. Please see Status of Prior Audit Findings and Recommendations on page 19 for a detailed description of the prior audit findings and status.

Summary of Management Comments

The following represents a summary of the response provided by CAII to the finding identified in this report. The complete response may be found in Appendix A to this report.

CAII did not agree or disagree with Finding 2019-01. However, CAII provided additional information for consideration of the questioned cost presented in that finding. CAII provided email documentation that appears to provide approval for CAII to make a final disposition decision regarding the Conex containers. CAII also provided calculations it used to assert the most cost-effective solution was to leave the Conex containers within the landlord's property.

Attachments

The auditor's reports are supplemented by two attachments:

- Appendix A - Management's Response to the Findings and Recommendations
- Appendix B - Auditor's Response to Management Comments



Independent Auditor's Report on the Special Purpose Financial Statement

Board of Directors
Creative Associates International Inc.
5301 Wisconsin Ave NW, Suite 700
Washington, DC 20015

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 Creative Associates International Inc. (CAII) and the related notes to the Statement, with respect to the United States Agency for International Development (USAID) contract number AID-306-C-12-00007 for the period October 1, 2015 through June 30, 2018.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of this Statement in accordance with the requirements provided 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 is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this 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 CAII'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 CAII'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 basis for our audit opinion.

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred and reimbursed, and balances for the indicated period in accordance with the terms of the contract and in conformity with the basis of accounting described below.

Basis of Accounting

We draw your attention to Note 2 to the Statement, which describes the basis of accounting. As described in Note 2 to the Statement, the Statement is prepared by CAII on the basis of 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 June 6, 2019, on our consideration of CAII's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

Restriction on Use

Our report is intended solely for the information and use of CAII, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Williams, Adley & Company-DC, LLP
Washington, D.C.
June 6, 2019

Creative Associates International Inc.
Special Purpose Financial Statement
 October 1, 2015 to June 30, 2018

	Budget	Actual	Questioned Costs		Notes ¹
			Ineligible	Unsupported	
Revenues					3
Award AID-306-12-C-00007	\$44,775,680	\$18,534,543			
Total Revenue	\$44,750,680	\$18,534,543			
Costs Incurred					4
Labor	\$5,636,473	\$2,515,964			
Fringe Benefits	2,081,985	893,517			
Other Direct Costs	6,647,012	2,654,371		\$16,368	A
Subcontractor	5,518,870	1,940,032			
Grants Under Contract	16,309,323	6,430,364			
Indirect Cost	6,988,613	3,270,790			
Fixed Fee	1,593,404	829,504			
Total Costs Incurred	\$44,775,680	\$18,534,543²		\$16,368	
Outstanding Balance	\$0	\$0			

¹ The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

² The total costs incurred are rounded for presentation purposes; therefore, the summed total of Costs Incurred results in a rounding error.

Creative Associates International Inc.
Notes to the Special Purpose Financial Statement³

1. Status and Operation

The scope of the Special Purpose Financial Statement is limited to costs incurred by CAII for the AWDP, under USAID Contract No. AID-306-12-C-00007, for the period from October 1, 2015, to June 30, 2018. The Special Purpose Financial Statement is not intended to and does not present the financial position of CAII, because it presents only a selected portion of operations under the AWDP during the audit scope. This project is now closed, completed on June 30, 2018.

2. Summary of Significant Accounting Policies

- a. Basis of Accounting -The Special Purpose Financial Statement was prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
- b. Foreign Currency conversion method in accordance with GAAP, Conversion from local currency to U.S. dollars was not required when preparing the Special Purpose Financial Statement. AWDP funds were maintained and transferred to local financial institutions in U.S. dollars. CAII uses the exchange rate provided by the local bank during currency conversion as the rate used for all transactions that were paid for using the local currency.

3. Revenues

The revenue stated here is for the period October 1, 2015 through June 30, 2018.

4. Cost Categories

The cost categories listed are representative of the approved contract budget. The following direct costs were incurred:

- Personnel - CAII employees that worked in Afghanistan and at CAII headquarters, including third country nationals that worked only in Afghanistan incurred the following costs:
 - o Salaries and wages;
 - o Danger pay;
 - o Post differential;
 - o Home allowance;
 - o Relocation and shipping;

³ These Notes to the Special Purpose Financial Statement are the responsibility of CAII's management.

- o Travel and R&R and RRB Leave Travel;
 - o Involuntary separation maintenance allowance; and
 - o Meals and accommodation.
- Cooperating country nationals in Afghanistan hired to work on the AWDP. They incurred the following costs:
 - o Salaries and wages;
 - o Transportation allowance;
 - o Food allowance; and
 - o Communication allowance.
- Travel and Per Diem – These costs include travel to and from Afghanistan for US expatriates and third country nationals. This category also includes internal travel for Afghan nationals and nightly per diem.
- Program Activities - These costs include conferences, workshops, Insurance, professional fees and office security.
- Office Costs – These costs include supplies, vehicle maintenance, shipping and postage, utilities, meals, expendable furniture and appliances, repair and maintenance.
- Subcontractor Costs – Subcontractors were used to provide security for CAII employees working on the AWDP.
- Grants – Grants were issued to provide training to Afghans in the labor force to increase their employability or obtain a promotion with newly acquired skills.
- Consultants – These costs are for home country nationals that were consulted for specific workshops and conferences but were not employed by CAII.
- Procurement – These costs include expendable and non-expendable equipment and computers.

Creative Associates International Inc.
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement⁴

Note A: Questioned Costs – Missing Inventory Disposition Documentation

Finding 2019-01 questions \$16,368 as CAII was unable to provide documentation to support the approval of the disposition of Conex containers. The unsupported costs were charged to other direct costs under the contract during the audited period of performance.

⁴ Alphabetic notes to the questioned costs presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor



Independent Auditor's Report on Internal Control

Board of Directors
Creative Associates International Inc.
5301 Wisconsin Ave NW, Suite 700
Washington, DC 20015

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

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Creative Associates International Inc. (CAII), under United States Agency for International Development (USAID) contract number AID-306-C-12-00007 for the period October 1, 2015 through June 30, 2018. We have issued our report thereon dated June 6, 2019 with an unmodified opinion.

Internal Control Over Financial Reporting

In planning and performing our audit of the Statement, we considered CAII's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of CAII's internal control. Accordingly, we do not express an opinion on the effectiveness of CAII'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 CAII's 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 first paragraph of this section 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. We did identify one deficiency in internal control that is included as Finding 2019-01 in the Schedule of Findings and Questioned Costs.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of CAII, USAID, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Williams, Adley & Company - DC, LLP
Washington, D.C.
June 6, 2019



Independent Auditor's Report on Compliance

Board of Directors
Creative Associates International Inc.
5301 Wisconsin Ave NW, Suite 700
Washington, DC 20015

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

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Creative Associates International Inc. (CAII), under the United States Agency for International Development (USAID) contract number AID-306-C-12-00007 for the period October 1, 2015 through June 30, 2018. We have issued our report thereon dated June 6, 2019 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CAII's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted this one issue for missing disposition documentation as detailed in Finding 2019-01 per the Schedule of Findings and Questioned Costs. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. We did not identify any other matters required to be reported under *Government Auditing Standards*.

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

Standards in considering CAII's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of CAII, USAID, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Williams, Adley & Company-DC, LLP
Washington, D.C.
June 6, 2019

Schedule of Findings and Questioned Costs

Finding 2019-01: Missing Inventory Disposition Documentation

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

Condition: We tested 30 out of 502 disposed inventory items to determine if they were properly disposed of in accordance with CAII's USAID-approved disposition plan. For three of the items tested, we determined that CAII did not maintain disposition documentation. Therefore, we are unable to confirm if the assets were disposed of appropriately. We are questioning the cost of the assets totaling \$16,368 that were charged to the contract / US Government.

Asset ID	Inventory Item	Cost (USD)	Exception Noted
01126	Conex Container	\$6,000	No disposition forms maintained.
00794	Conex Container	\$5,184	
00795	Conex Container	\$5,184	
Total Cost		\$16,368	

Criteria: 48 CFR § 31.201-2, Determining allowability,

“(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...

(c) When contractor accounting practices are inconsistent with this subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.”

Per 48 CFR § 31.201-3, Determining reasonableness,

“(a) 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.

(b) What is reasonable depends upon a variety of considerations and circumstances, including:... (4) Any significant deviations from the contractor's established practices.”

In accordance with the USAID contract, section H.7 AIDAR 752.245-71, Title to and Care of Property, paragraph (b), “[the] Contractor shall prepare and establish a program, to be approved by the Mission, for the receipt, use, maintenance, protection, custody, and care of non-expendable property for which it has custodial responsibility, including the establishment of reasonable controls to enforce such program.”

Per CAII's Property Management policy, P.R. 1.2.4, each CAII project will have a system for tracking the project's non-expendable property (inventory). According to *PR 1.2.4.2 Non-Expendable Property*, it defines non-expendable property as property such as furniture, office machines, information technology equipment, and communications equipment, which is:

- 1) Complete in and of itself;
- 2) Does not lose its identity or become a component part of another item when used;
and
- 3) Is of a durable nature with anticipated useful life of over 2 years.

Cause: CAII stated that the Conex containers were designated to stay with the landlord because they were modified, becoming semi-permanent to the property. Conex containers are metal shipping containers normally associated with cargo ships. In Afghanistan they are used for many purposes including for storage, building annexes and living quarters. However, the disposition instructions for these Conex containers were not retained. Because documentation was not retained for these assets, and we were unable to validate if the documentation existed, we determined that CAII's process for preparing and submitting final inventory lists as part of an approved disposition plan was deficient, and they did not follow proper protocol for documenting disposal of non-expendable property.

Effect: In the absence of disposition documentation, we are unable verify if inventory items were appropriately disposed of in accordance with an approved disposition plan, and if USAID was entitled to or received proceeds from a sale based on its percentage of participation in the cost of the original purchase.

Questioned Costs: We determined \$16,368 in total unsupported questioned costs as the value of the three Conex containers for which disposition documentation was missing.

Recommendation: We recommend that CAII:

1. Provide USAID with records, showing items were appropriately disposed of in accordance with an approved disposition plan or reimburse USAID \$16,368 for those amounts for which appropriate support is not provided.
2. Update its internal control procedures for tracking inventory items to reflect the requirements regarding disposition instructions for Federal property from the Federal awarding agency.

Status of Prior Audit Findings and Recommendations

We requested prior audit reports and corrective actions based on recommendations to determine if the findings could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. We identified two reports that contained a total of four findings that could have an impact on the Statement or other financial information related to the audit objectives. To determine if these issues occurred under our audit, we performed follow-up procedures, tested transactions, and reviewed documentation. We concluded that CAII has taken adequate corrective action on the findings and they were not repeated under this audit. We have summarized the condition, corrective action taken and the current status of the findings for each report below.

Report: USAID OIG Financial Audit of CAII, issued on February 21, 2017. Financial Audit of Costs Incurred by Creative Associates International, Inc. for Afghanistan, under the Afghanistan Workforce Development Program (AWDP), Contract Number AID-306-C-12-00007, for the period from October 1, 2014, to September 30, 2015.

Issue: *Finding Number 2015-01 – Significant Deficiency and Non-Compliance:* Six grant milestone payments were not approved by the CAII headquarters backstop or the Controller. However, the grant payments to subrecipients were approved by the Chief of Party, all milestone requirements were met and no questioned costs were identified in the audit report.

Status: Our review of subrecipient payments did not reveal any anomalies during our disbursement testing. We determined that this finding has not been repeated.

Report: SIGAR audit report 14-18-Financial Audit, issued on January 7, 2014. USAID’s Building Education Support Systems for Teachers and Community Based Stabilization Grants Projects: Audit of Costs Incurred by Creative Associates International, Inc. per Task Order No. 306-M-00-06-00508-00 for the Period January 27, 2006 through August 31, 2011; and Cooperative Agreement No. 306-A-00-10-00513-00 for the Period March 7, 2010 through March 6, 2012.

Issue: *Finding 2013-1 - Budget line items were exceeded without approval from funding agency.* Direct labor and general and administrative costs exceeded the USAID approved budget for those line items, which resulted in \$334,202 in questioned cost.

Status: Closed. USAID determined a final unallowable cost of \$83,877 for which CAII responded that a wire transfer was made to USAID on May 8, 2014. We reviewed each budget line item and verified that actual expenditures did not exceed the budgeted amount for any line item. We did not observe budget overruns during our audit. This finding has not been repeated.

Issue: *Finding 2013-2 – Missing Source Documentation to Support Expense.* CAII did not maintain timesheets for one of their consultants' reported hours worked. This issue resulted in a questioned cost of \$1,633 that USAID upheld as an unsupported cost.

Status: Closed. CAII reported that a wire transfer was made to USAID on May 8, 2014 as reimbursement for the questioned cost. We tested payroll transactions for adequate support and did not note any exceptions. This finding has not been repeated as we did not observe this issue during our audit.

Issue: *Finding 2013-3 - Ineligible Expenses charged to the Agreement.* Transportation and food costs were charged to the agreement without receiving the proper approval from USAID for which the auditor questioned \$8,644 as ineligible costs.

Status: Closed. USAID disallowed the costs and CAII reported that a wire transfer was made to USAID on May 8, 2014. We reviewed the general ledger for unusual transactions and we did not observe this issue during our audit. As such, this finding has not been repeated.

Appendix A – Management’s Response to the Findings and Recommendations

August 8, 2019

Williams, Adley & Company-DC, LLP
1030 15th Street, NW, Suite 350 West
Washington, DC 20005

Re: SIGAR Financial Audit of Costs Incurred Under USAID Contract Number AID-306-C-12-00007, Questioned Costs.

Dear Cordell:

Thanks for the draft report which we have reviewed, and the following is Creative’s response to the audit findings and questioned costs of \$16,368:

Creative’s Response:

Given that the AWDP project closed in June 2018 and most of the staff working on the project were no longer serving with Creative, we were not able to provide the communication between the then CoP and USAID in a timely manner to be responsive to the auditors.

Creative continued with the search during the drafting of the report and were able to find the correspondence providing guidance to proceed with the disposition of the three containers among other dispositions. We have attached both the chain of communication and the schedule supporting the disposition request.

I am available at (202) 966-4845 and please let us know if you need further information.

Sincerely,

Peter A. Kapakasa
Senior Director & Controller
Creative Associates International, Inc.
(202) 966-4845

From: Tariq Waizy <twaizy@usaid.gov>
Date: Thu, Jun 14, 2018 at 7:56 PM
Subject: Re: FW: Landlord Negotiation
To: David Haines <davidh@crea-awdp.com>
Cc: Ruben Abisoghomyan <rubena@crea-awdp.com>

I do not need any more information. You should make the final decision and proceed as appropriate.

Many thanks,

Tariq

On Thu, Jun 7, 2018 at 6:44 AM, David Haines <davidh@crea-awdp.com> wrote:

Hello Tariq,

I just wanted to follow up and see if you required any additional information from us on this?

We need to finalise the details with the landlord and I want to get everything squared away before I leave.

Many thanks,

David

From: David Haines <davidh@crea-awdp.com>
Sent: Tuesday, May 29, 2018 11:37 AM
To: 'Tariq Waizy' <twaizy@usaid.gov>

Subject: RE: FW: Landlord Negotiation

Hi Tariq,

Fabulous – many thanks,

David

From: Tariq Waizy <twaizy@usaid.gov>
Sent: Tuesday, May 29, 2018 10:10 AM
To: David Haines <davidh@crea-awdp.com>
Subject: Re: FW: Landlord Negotiation

Hi David,

I am waiting for OAA response and COs are in transit. Hopefully, will get back to you on this during this week.

Thanks,

Tariq

On Tue, May 29, 2018 at 9:09 AM, David Haines <davidh@crea-awdp.com> wrote:

Hi Tariq,

Just following up with this. If you could please agree as we discussed, I can finalise with the landlord.

Thanks,

David

From: David Haines <davidh@crea-awdp.com>
Sent: Tuesday, May 22, 2018 10:06 AM
To: 'Tariq Waizy (twaizy@usaid.gov)' <twaizy@usaid.gov>
Cc: Ruben Abisoghomyan <rubena@crea-awdp.com>; Ousmane Diop <ousmaned@crea-awdp.com>
Subject: Landlord Negotiation

Hi Tariq,

As discussed previously, please find enclosed a calculation that shows it is much more efficient to pay the landlord a reduced amount and have him do the renovations to the AWDP compound, and please note that we have deducted amounts for the AC and containers as these would be very expensive to remove.

I would appreciate your agreement by email so that we can finalise and move forward with closeout.

Many thanks,

David

David Haines

Chief of Party

Afghanistan Workforce Development Program (AWDP)

Creative Associates International

Kabul, Afghanistan

Cost Comparison Analysis

Option 1: Hire a contractor to renovate Office and Guest House buildings

	Amount AFN	Amount USD
Estimated Costs from selected bidder	AFN 680,000	\$ 9,577
Estimated Costs to remove 30 Air Conditionners	AFN 9,000	\$ 127
Estimated Costs to remove 3 Containers	AFN 50,000	\$ 704
Total Estimated Cash Out Flow	AFN 739,000	\$ 10,408

Option 2: Cash Payment to landlords in lieu of renovations

Cash Payment Offers	AFN 600,000	\$ 8,451
Deduction from Sale 30 Air Conditionners to landlords	AFN (31,382)	\$ (442)
Deduction from Sale of 3 containers to landlords	AFN (49,984)	\$ (704)
Total Estimated Cash Out Flow	\$ 518,634	\$ 7,305
Total Estimated Saving		\$ 3,104

Conclusion and Proposed Option

Estimated cash disbursement would be less in option 2 than in option 1.

Option 2 will save ADWP approximately \$3,000 and eliminate the risks of hiring a contractor to carry out renovation works which may not meet landlord's expectations. AWDP is proposing to implement option 2.

Appendix B – Auditor’s Response to Management Comments

Williams Adley & Company-DC, LLP (Williams Adley) has reviewed Creative Associates International Inc.’s (CAII’s) management response to the audit findings. In consideration of management views, we have included the following rebuttal to certain matters presented by CAII. A rebuttal has been included in those instances where management disagreed with the facts presented in the finding or otherwise did not concur with our recommendations. CAII did not agree or disagree with Finding 2019-01. However, CAII provided additional information for consideration of the questioned cost presented in that finding. Williams Adley’s response to CAII management comments is as follows:

Finding 2019-01: Missing Inventory Disposition Documentation

Management responded that it had difficulty locating disposition documentation for the three Conex containers because the project had ended in June 2018 and most staff were no longer available to respond to information requests concerning the AWDP project. Nonetheless, CAII management provided email documentation that appears to provide approval for CAII to make a final disposition decision regarding the Conex Containers and calculations. CAII asserts the most cost-effective solution was to leave the Conex containers within the landlord’s property.

While this information adds some clarity to the decision-making process, the information provided is insufficient for the auditor to determine USAID’s concurrence with the final decision and disposition. As such, the finding and recommendation remain as stated.

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
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- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202