

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-41 Financial Audit

USAID's Afghanistan Development Assistance for Legal Access and Transparency Program: Audit of Costs Incurred by Checchi and Company Consulting Inc.

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



JUNE
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 18, 2016, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee task order for \$43,869,327 to Checchi and Company Consulting Inc. (Checchi) in support of USAID's Afghanistan Development Assistance for Legal Access and Transparency program. The objective was to improve citizens' access to justice services based on Afghan law. After 11 modifications, the contract's total funding increased to \$68,163,468, and the period of performance was extended by one year to April 17, 2021.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$16,350,571 in costs charged to the contract from October 1, 2017, through June 30, 2019. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Checchi'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 Checchi has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Checchi's Special Purpose Financial Statement (SPFS). See Davis Farr's report for the precise audit objectives.

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

June 2020

USAID's Afghanistan Development Assistance for Legal Access and Transparency Program: Audit of Costs Incurred by Checchi Consulting Company Inc.

SIGAR 20-41-FA

WHAT SIGAR FOUND

Davis Farr identified three significant deficiencies in Checchi's internal controls and three instances of noncompliance with the terms of the contract. The auditors determined that Checchi presented and reported transactions on the SPFS that occurred before the period of performance began, thus overstating its expenses. This resulted in \$16,187 in ineligible costs. Davis Farr tested 22 transactions related to travel and transportation and found that a Checchi invoice included airfare for a family member not employed by the company, which resulted in \$600 in ineligible costs. Checchi indicated that USAID approved similar travel for "mahrams," a male acting as an escort for a Muslim woman during travel, as written in Islamic law; however, neither Checchi nor USAID provided any documentation to support this approval.

The auditors determined that Checchi charged for international travel without seeking USAID's approval in advance, as required by the Code of Federal Regulations. Davis Farr also noted that edits made to journal entries were not signed by the reviewer and approving authority, which resulted in an internal control deficiency.

Davis Farr identified a total of \$16,787 in total questioned costs, which entirely consist of ineligible costs—costs prohibited by the contract, applicable laws, or regulations. It did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$16,787	\$0	\$16,787
Total Costs	\$16,787	\$0	\$16,787

Davis Farr identified two prior audit reports that were relevant to Checchi's activities under the contract. The reports had seven findings that could have a material effect on the SPFS and other financial data that are significant to this audit's objectives. Davis Farr conducted follow-up procedures and concluded that Checchi took adequate corrective action on all seven findings.

Davis Farr issued an unmodified opinion on Checchi'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, \$16,787 in questioned costs identified in the report.
2. Advise Checchi to address the report's three internal control findings.
3. Advise Checchi to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 30, 2020

Mr. John Barsa
Acting Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by Checchi and Company Consulting Inc. (Checchi) under a cost-plus-fixed-fee task order from the U.S. Agency for International Development (USAID) to support the Afghanistan Development Assistance for Legal Access and Transparency program.¹ The program's objective was to improve citizens' access to justice services based on Afghan law. Davis Farr reviewed \$16,350,571 in costs charged to the task order from October 1, 2017, through June 30, 2019. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$16,787 in questioned costs identified in the report.**
- 2. Advise Checchi to address the report's three internal control findings.**
- 3. Advise Checchi to address the report's three noncompliance findings.**

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

We are requesting documentation related to corrective actions taken and/or target dates for completion for the recommendations. Please provide this information to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-172)

¹ The order number is AID-306-TO-16-00007.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034
Order No. AID-306-TO-16-00007
Afghanistan Development Assistance
for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

Table of Contents

	<u>Page</u>
Transmittal Letter	i
Background	1
Work Performed	1
Objectives, Scope, and Methodology	2
Summary of Results	4
Review of Prior Findings and Recommendations	6
Summary of CCCI's Response to Findings	6
Independent Auditor's Report on Special Purpose Financial Statement	7
Special Purpose Financial Statement	9
Notes to Special Purpose Financial Statement	10
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	13
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	14
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	16
Detailed Audit Findings	18
Status of Prior Findings	26
Appendices:	
Appendix A: CCCI's Response to Findings	28
Appendix B: Auditor's Rebuttal to CCCI's Response to Findings	29

May 22, 2020

Enclosed is the final report on the financial audit of costs incurred by Checchi and Company Consulting, Inc. (CCCI) under United States Agency for International Development Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007 for the Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program. The audit covers the period October 1, 2017 through June 30, 2019.

Included within the final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from the CCCI, the Special Inspector General for Afghanistan Reconstruction and the U.S. Agency for International Development. Management of CCCI has prepared responses to the findings identified during our audit and those responses are included as part of this report. The responses have not been audited and we express no opinion on them.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

Background

On April 18, 2016, the United States Agency for International Development (USAID) awarded Task Order No. AID-306-TO-16-00007 under Contract No. AID-OAA-I-13-00034 (hereinafter referred to as "**Contract Task Order**") to Checchi and Company Consulting, Inc. (CCCI) in support of USAID's Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program. The purpose of the Contract Task Order was to improve citizen access to justice services based on Afghan law. To achieve this purpose, the Adalat Program had the following three main sub-purposes:

- 1) Increase effectiveness and reach of the formal justice sector;
- 2) Strengthen linkages between formal and traditional justice sectors; and
- 3) Increase citizen demand for quality legal services.

Specifically, CCCI was to work closely with Afghan justice institutions to increase the professionalism of justice sector actors, improve judicial administrative and management systems, and strengthen the **Ministry of Justice's (MOJ's)** Huquq Department and its interaction with traditional justice actors on civil-related matters. CCCI was also required to develop the technical, organizational and management capacity of USAID civil-society partners operating in the formal and traditional justice sectors. Additionally, CCCI was to support USAID missions to eliminate practices that violate human rights in traditional dispute resolutions within the informal justice sector, and to increase citizen awareness of and demand for fair and accessible justice services.

The Contract Task Order was a cost-plus-fixed-fee completion type task order. It was awarded in the original amount of \$43,869,327, [REDACTED]. The period of performance was from April 18, 2016 to April 17, 2020. The Contract Task Order was modified 11 times through June 25, 2019 for such reasons as exercising the option periods and modifying the contract clauses. After 11 modification, the Contract Task Order amount was increased to \$68,163,468, [REDACTED] and the period of performance was extended to April 17, 2021.

Our audit procedures reviewed \$16,350,571 of total costs plus fixed fee, [REDACTED] for the period October 1, 2017 through June 30, 2019.

Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of CCCI's Special Purpose Financial Statement (SPFS) for the period October 1, 2017 through June 30, 2019. The total costs plus fixed fee reported by CCCI were \$16,350,571, [REDACTED].

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether CCCI’s **SPFS** for the Contract Task Order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the Contract Task Order and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of CCCI’s **internal control** related to the Contract Task Order; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether CCCI complied, in all material respects, with the Contract Task Order 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 CCCI 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 the actual costs plus fixed fee of \$16,350,571, [REDACTED]. The period of performance of the Contract Task Order is not yet complete. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates approved by USAID.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on October 15, 2019. Participants included representatives of Davis Farr, CCCI, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

- Obtained an understanding of USAID;
- Reviewed the Contract Task Order and all modifications to date;
- Reviewed sections of the Federal Acquisition Regulation (FAR) and the USAID Acquisition Regulation (AIDAR), which includes Chapter 7 of the FAR, as applicable to the Contract Task Order;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, moderate or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:
 - For accounts that appear to contain unallowable and restricted items according to the terms of the Contract Task Order, FAR Part 31, AIDAR and any other applicable regulations, we sampled 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$76,200, and additional transactions below \$76,200 to ensure that at least 50% of the total amount expended for each cost category was sampled.
 - For moderate risk categories, we sampled transactions that are greater than \$152,400, and additional transactions below \$152,400 to ensure at least 20% of the total amount expended for each cost category was sampled.
 - Low risk categories consisted solely of home office costs and indirect costs. For home office costs, we sampled transactions to ensure that at least 10% of the total amount expended was sampled. For indirect costs, no sample was selected as we tested the proper application of the indirect cost rates. This included reviewing the NICRA to **ensure that CCCI's indirect costs did not exceed** the approved rates.

Internal Control Related to the SPFS

We reviewed CCCI's internal control related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal control identified by CCCI and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

Compliance with Contract Task Order Requirements and Applicable Laws and Regulations

We reviewed the Contract Task Order and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance with the Contract Task Order requirements and laws and regulations.

Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, CCCI and USAID and requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract Task Order, modifications 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 Task Order and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Exit Conference

An exit conference was held on February 27, 2020 via conference call. Participants included representatives from Davis Farr, CCCI, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

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

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

Auditor’s Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We also identified \$16,787 of questioned costs under the Contract Task Order. A summary of findings and questioned costs is described in the next section.

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Costs
2020-01	Internal control – significant deficiency Noncompliance	Costs incurred outside of SPFS period	\$16,187	\$16,187
2020-02	Noncompliance	Unallowable costs incurred for airfare	\$600	\$16,787
2020-03	Internal control – significant deficiency Noncompliance	Approval for international travel not requested timely	\$0	\$16,787
2020-04	Internal control – significant deficiency	Approval of expenses not consistently documented	\$0	\$16,787

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered CCCI’s internal control over financial reporting and performed tests of those controls. The results of our tests disclosed three internal control weaknesses required to be reported under *Government Auditing Standards*. See Independent Auditor’s Report on Internal Control on page 14.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Contract Task Order and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed three instances of noncompliance related to this audit. See Independent Auditor’s Report on Compliance on page 16.

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.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

For the Period October 1, 2017 through June 30, 2019

Review of Prior Findings and Recommendations

We requested from CCCI, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to CCCI's activities under this Contract Task Order. We identified one report, Limited Financial Review of the Contract Task Order for the period March 2017 through March 2018 which was performed by USAID-Afghanistan and issued on September 27, 2018, that contained four findings, three of which could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We also identified one audit report, **Financial Audit of Costs Incurred by CCCI for USAID's Results Tracking Phase II** for the period July 1, 2014 through June 30, 2016, which was conducted by Mayer Hoffman McCann P.C. on behalf of SIGAR and issued on May 10, 2018, that contained four findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives.

We have performed follow up procedures including discussion with management, reviewed the revised policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that CCCI has taken adequate corrective actions on all prior findings and these findings were not repeated under this audit. See the Status of Prior Findings on page 18 for a detailed description of the prior findings and recommendations.

Summary of CCCI's Responses

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

- Finding Number 2020-01: CCCI disagreed with this finding indicating that the costs incurred outside of the SPFS period were not previously billed to USAID. As part of its response, CCCI provided its invoice to USAID for the month of September 2017, which is the month prior to the beginning of the period covered by the SPFS. A copy of that invoice is not included as part of this report.
- Finding Number 2020-02: CCCI disagreed with this finding indicating that in a meeting with the USAID COR on March 7, 2018, the USAID COR made the determination and verbally **indicated that "mahram" travel** is allowable.
- Finding Number 2020-03: CCCI agreed with this finding.
- Finding Number 2020-04: CCCI agreed with this finding.

INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT

Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, DC 20036

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 Checchi and Company Consulting, Inc. (CCCI) under Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007 (collectively referred to as "**Contract Task Order**") with the United States Agency for International Development (USAID) for the Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program for the period October 1, 2017 through June 30, 2019, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on **the auditor's judgment, including** the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk **assessments, the auditor considers internal control relevant to the entity's preparation and** fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
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2530 Crystal Drive
Arlington, Virginia 22202

an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

Opinion

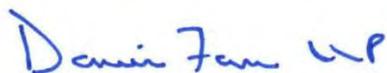
In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by CCCI under the Contract Task Order for the period October 1, 2017 through June 30, 2019 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of CCCI, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 22, 2020 on our consideration of CCCI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCCI's internal control over financial reporting and compliance.



Irvine, California
May 22, 2020

CHECCHI AND COMPANY CONSULTING, INC.
 Contract No. AID-OOA-I-13-00034, Order No. AID-306-TO-16-00007
 Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Special Purpose Financial Statement

For the Period October 1, 2017 through June 30, 2019

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-OOA-I-13-00034/AID-306-TO-16-0007	\$ 68,163,468	\$ 16,350,571	\$ -	\$ -	\$ -	(3)
Total revenues	68,163,468	16,350,571	-	-	-	
Costs incurred:						
Direct labor:						
Long-term expatriates	██████████	██████████	-	-	-	
Long-term local	██████████	██████████	-	-	-	
Short-term expatriates	██████████	██████████	-	-	-	
Short-term local	██████████	██████████	-	-	-	
Local staff	██████████	██████████	-	-	-	
Home office	██████████	██████████	-	-	-	
Allowances	██████████	██████████	-	-	-	
Fringe benefits	██████████	██████████	-	-	-	
Subtotal Labor	██████████	██████████	-	-	-	
Travel, transportation and per diem	██████████	██████████	3,197	-	3,197	(A)
Other direct costs:						
Direct facilities/field costs	██████████	██████████	13,590	-	13,590	(B)
Communications and misc office	██████████	██████████	-	-	-	
Expendible equipment and supplies	██████████	██████████	-	-	-	
Vehicles and non-expendable equipment	██████████	██████████	-	-	-	
Subcontracts	██████████	██████████	-	-	-	
Subtotal other direct costs	██████████	██████████	13,590	-	13,590	
Project support costs	██████████	██████████	-	-	-	
Home office costs	██████████	██████████	-	-	-	
Total direct costs incurred	██████████	██████████	16,787	-	16,787	
Grants under contracts	██████████	██████████	-	-	-	
Security	██████████	██████████	-	-	-	
Indirect costs	██████████	██████████	-	-	-	(4)
Total costs incurred	██████████	██████████	16,787	-	16,787	
Fixed fee	██████████	██████████	-	-	-	(5)
Total costs plus fixed fee	68,163,468	16,350,571	16,787	-	16,787	
Outstanding fund balance	\$ -	\$ -	\$ (16,787)	\$ -	\$ (16,787)	(6),(C)

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

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Notes to Special Purpose Financial Statement¹

For the Period October 1, 2017 through June 30, 2019

(1) Background

On April 18, 2016, the United States Agency for International Development (USAID) awarded Task Order No. AID-306-TO-16-00007 under Contract No. AID-OAA-I-13-00034 (hereinafter **referred to as "Contract Task Order"**) to Checchi and Company Consulting, Inc. (CCCI) in support of USAID's Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program. The purpose of the Contract Task Order was to improve citizen access to justice services based on Afghan law. To achieve this purpose, the Adalat Program had the following three main sub-purposes:

- 1) Increase effectiveness and reach of the formal justice sector;
- 2) Strengthen linkages between formal and traditional justice sectors; and
- 3) Increase citizen demand for quality legal services.

Specifically, CCCI was to work closely with Afghan justice institutions to increase the professionalism of justice sector actors, improve judicial administrative and management **systems, and strengthen the Ministry of Justice's (MOJ's)** Huquq Department and its interaction with traditional justice actors on civil-related matters. CCCI was also required to develop the technical, organizational and management capacity of USAID civil-society partners operating in the formal and traditional justice sectors. Additionally, CCCI was to support USAID missions to eliminate practices that violate human rights in traditional dispute resolutions within the informal justice sector, and to increase citizen awareness of and demand for fair and accessible justice services.

The Contract Task Order is a cost-plus-fixed-fee completion type task order. It was awarded in the original amount of \$43,869,327, [REDACTED]. The period of performance was from April 18, 2016 to April 17, 2020. The Contract Task Order was modified 11 times through June 25, 2019 for such reasons as exercising the option periods and modifying the contract clauses. The amended Contract Task Order amount was increased to \$68,163,468, [REDACTED] [REDACTED] [REDACTED] [REDACTED]. The period of performance was extended to April 17, 2021.

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

¹ The Notes to the Special Purpose Financial Statement with a numeric identifier are the responsibility of CCCI.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for the ADALAT Program for the period October 1, 2017 through June 30, 2019. Because the SPFS presents only a selected portion of the operations of CCCI, it is not intended to and does not present the financial position, changes in financial position, or cash flows of CCCI. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract Task Order.

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the cost principles of 48 CFR Part 31, *Federal Acquisition Regulations System* (FAR Part 31).

Currency

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

(3) Revenue

As of June 30, 2019, CCCI has reported \$16,350,571 in revenue. This revenue equals the costs incurred plus the fixed fee by CCCI under the Contract Task Order for the period October 1, 2017 through June 30, 2019.

(4) Indirect Costs

CCCI's indirect costs were reviewed and approved by USAID in a Negotiated Indirect Cost Rate Agreement (NICRA) dated June 28, 2019. The following provisional indirect cost rates were applicable to the Contract:

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the Period October 1, 2017 through June 30, 2019

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

(A) Travel, Transportation and Per Diem

CCCI reported travel, transportation and per diem costs in the amount of \$178,510 for the period October 1, 2017 through June 30, 2019. During our audit of these costs, we noted the following ineligible costs. See Findings 2020-01 and 2020-02.

<u>Finding Number</u>	<u>Observation</u>	Questioned Costs – <u>Ineligible</u>
2020-01	Costs outside of SPFS period	\$2,597
2020-02	Unallowable costs for airfare	<u>600</u>
Total questioned costs		<u>\$3,197</u>

(B) Direct Facilities/Field Costs

CCCI reported direct facilities/field costs in the amount of \$637,518 for the period October 1, 2017 through June 30, 2019. During our audit of these costs, we noted that three transactions in the total amount of \$13,590 which were incurred outside of the SPFS period, and have been questioned as ineligible. See Finding Number 2020-01.

(C) Outstanding Fund Balance

The total outstanding fund balance as of June 30, 2019 in the amount of \$(16,787) represents the total ineligible questioned costs.

² The Notes to Questioned Costs presented on the Special Purpose Financial Statement with an alphabetical identifier were prepared by Davis Farr LLP for information purposes only and as such are not a part of the audited Special Purpose Financial Statement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, DC 20036

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

We have audited the accompanying Special Purpose Financial Statement of Checchi and Company Consulting, Inc. (CCCI) under Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007 (**collectively referred to as "Contract Task Order"**) with the United States Agency for International Development (USAID) for the Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program for the period October 1, 2017 through June 30, 2019, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered CCCI's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of **CCCI's internal control**. **Accordingly, we do not express an opinion on the effectiveness of CCCI's internal control.**

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

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weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify three deficiencies in internal control, described in the accompanying Detailed Audit Findings as Finding Numbers 2020-01, 2020-03 and 2020-04 that we consider to be significant deficiencies.

CCCI's Response to Findings

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

Purpose of this Report

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

This report is intended for the information of CCCI, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, 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.

A handwritten signature in blue ink that reads "David Fan" followed by a stylized monogram or initials "DF".

Irvine, California
May 22, 2020

REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, DC 20036

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

We have audited the accompanying Special Purpose Financial Statement of Checchi and Company Consulting, Inc. (CCCI) under Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007 (**collectively referred to as "Contract Task Order"**) with the United States Agency for International Development (USAID) for the Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program for the period October 1, 2017 through June 30, 2019, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 22, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCCI's **Special Purpose** Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and the aforementioned Contract Task Order, noncompliance with which could have a direct and material effect on the determination of Special Purpose Financial Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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 Finding Numbers 2020-01, 2020-02 and 2020-03.

CCCI's Response to Findings

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

Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, DC 20036

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

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 CCCI, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California
May 22, 2020

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

For the Period October 1, 2017 through June 30, 2019

Finding 2020-01: Costs Incurred Outside of SPFS Period

Nature of Finding:
Internal control – significant deficiency
Noncompliance

Condition:

CCCI has prepared its SPFS on the accrual basis of accounting, but recorded four transactions on the cash basis of accounting which overstated costs for the period reviewed. CCCI included transactions totaling \$16,187 prior to October 1, 2017 on its SPFS. Specifically, we noted the following:

<u>Cost Category</u>	<u>Transactions Sampled</u>		<u>Transactions Recorded Prior to October 1, 2017</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Travel, transportation and per diem	22	\$ 37,894	1	\$ 2,597
Direct facilities/field costs	<u>28</u>	<u>238,819</u>	<u>3</u>	<u>13,590</u>
Totals	<u>50</u>	<u>\$276,713</u>	<u>4</u>	<u>\$16,187</u>

Subsequent to the completion of fieldwork, CCCI provided evidence that the above transactions were not previously billed to USAID.

Cause:

CCCI inadvertently reported the transactions in question on the SPFS on the cash basis of accounting outside the period of performance due to a lack of supervisory review.

Criteria:

48 CFR 52.230-3, *Disclosure and Consistency of Cost Accounting Practices*, states, in part:

“(a) The Contractor, in connection with this contract, shall...

(3)(i) Follow consistently the Contractor’s cost accounting practices...”

CCCI’s cost accounting practices are to use the accrual basis of accounting in accordance with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board (FASB). The FASB is the accounting standard setting body for entities such as CCCI. The SPFS is prepared on the accrual basis of accounting. Under the accrual basis of accounting, expenses are reported when they are incurred. In other words, the expenses are recognized regardless of when the payment is actually made.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

Effect:

Reporting expenses on a basis of accounting different than the basis of accounting with which the SPFS was prepared, resulted in an overstatement of costs for the period October 1, 2017 through June 30, 2019.

Questioned Costs:

Total ineligible costs resulting from reporting expenses outside of the SPFS period were \$16,187. CCCI's **approved indirect costs are not applicable to travel**, transportation and direct facilities/field costs. Thus, there are no associated questioned indirect costs.

Recommendation:

- (1) We recommend that CCCI either provide evidence that the costs incurred outside of the audit period were not previously billed to USAID, or return \$16,187 to the U.S. Government.
- (2) We recommend that CCCI establish procedures to review future special purpose financial statements prior to submission to ensure that costs are reported on the accrual basis of accounting, and train staff on these procedures.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

Finding 2020-02: Unallowable Costs Incurred for Airfare

Nature of Finding:
Noncompliance

Condition:

During our testing of 22 travel, transportation and per diem transactions in the total amount of \$37,894, we noted 1 instance, totaling \$600, in which CCCI charged airfare for a family member of a female employee to the Contract Task Order. The airfare was for travel solely within Afghanistan. CCCI indicated that USAID had approved similar travel for "mahrams" in the past on other projects, but no documentation was provided to support this approval.

Cause:

In an effort to allow female employees to move around the country, CCCI allowed its female employees to be accompanied by a "mahram" and charged the "mahram's" travel costs to the Contract Task Order. Under Islam, a female that travels for a period of longer than one day and one night must have a "mahram" accompany them. A "mahram" is a person who cannot marry the woman forever as it would be considered illegal. From the woman's perspective, her "mahram" can be her father (and father's father, etc.), her sons (and her son's sons, etc.) her brothers, her brother's and sister's sons (and their son's sons, etc.), her uncles, male attendants having no physical desire, or children who are not yet aware of the private aspects of women¹. CCCI did not specifically obtain prior USAID approval as it was of the opinion that approval was granted on other projects for similar "mahram" costs and thus not needed to be obtained on this Contract Task Order.

Criteria:

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

"(a) Costs for transportation, lodging, meals, and incidental expenses. (1) Costs incurred by contractor personnel on official company business are allowable..."

Since a "mahram" is not an employee of CCCI, the travel costs are unallowable.

2 CFR 200 Subpart E, *Cost Principles*, §200.456, *Participant support costs*, states:

"Participant support costs as defined in §200.75 Participant support costs are allowable with the prior approval of the Federal awarding agency."

¹ Description of "mahram" taken from www.islam.stackexchange.com, which is a question and answer site for Muslims, experts in Islam and those interested in learning more about Islam.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

2 CFR 200 Subpart E, *Cost Principles*, §200.407, *Prior written approval (prior approval)*, states, in part:

“Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part: ...

(u) §200.456 Participant support costs;...

(y) §200.474 Travel costs.”

Effect:

CCCI’s approach of charging explicitly unallowable “mahram” costs to the Contract Task Order results in the U.S. Government paying for unallowable costs. Additionally, charging unallowable costs raises concerns about the propriety of CCCI’s billing and the extent of such charges. It also raises concerns that other unallowable costs may have been incurred and billed to the U.S. Government.

Questioned Costs:

Total ineligible costs resulting from the unallowable travel being charged to the Contract Task Order is \$600. **CCCI’s approved indirect costs are not applicable to travel, transportation and per diem.** Thus, there are no associated questioned indirect costs.

Recommendation:

- (1) We recommend that CCCI either provide adequate documentation to support that USAID **granted prior approval for travel costs for “mahrams” to be charged to the** Contract Task Order, or return \$600 to the U.S. Government.
- (2) We recommend that CCCI establish a policy that requires consultations with the USAID Contracting Officer prior to incurring any costs that are not expressly allowable per the terms of the Contract Task Order.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

Finding 2020-03: Approval for International Travel not Requested Timely

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

During our testing of 22 travel, transportation and per diem transactions in the total amount of \$37,894, we noted 3 transactions totaling \$7,591 that represented international travel for which prior approval from the USAID Contracting Officer Representative (COR) was not requested at least three weeks prior to travel. In all 3 transactions for which prior approval was not requested from the COR at least three weeks prior to travel, the COR did approve the request for international travel after the request was submitted.

Cause:

CCCI indicated that there were unusual circumstances that caused it to request approval for international travel on short notice.

Criteria:

48 CFR 752.7032, *International travel approval and notification requirements (APR 2014)*, states, in part:

“...Prior written approval by the contracting **officer, or the contracting officer’s representative (COR)** if delegated in the Contracting **Officer’s Representative Designation Letter**, is required for all international travel directly and identifiably funded by USAID under this contract. The Contractor must therefore present to the contracting officer **or the contracting officer’s representative**, an itinerary for each planned international trip, showing the name of the traveler, purpose of the trip, origin/destination (and intervening stops), and dates of travel, as far in advanced of the proposed travel as possible, but in no event less than three weeks before travel is planned to commence...”

Effect:

Failure to provide the COR with the required advance notice of international travel can result in costs being incurred for which the COR did not approve the request.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

Questioned Costs:

Even though CCCI submitted the request for international travel less than three weeks prior to the date of travel, there are no questioned costs associated with this finding as the COR did approve the international travel after the request was submitted and before the travel occurred.

Recommendation:

We recommend that CCCI modify its policies and procedures to ensure that requests for international travel are submitted to the COR for approval at least three weeks in advance of travel, and providing training to staff on these changes.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

Finding 2020-04: Approval of Expenses Not Consistently Documented

Nature of Finding:

Internal control – significant deficiency

Condition:

Of the 13 Home Office transactions tested, totaling \$14,896, we noted 2 transactions in the total amount of \$1,234, in which the journal entry edit report was not signed by both the reviewer and signature authority. Additionally, of the 15 Security transactions tested, totaling \$795,575, we noted 1 transaction in the amount of \$56,881, in which the journal voucher was not approved.

Cause:

CCCI indicated that in each of the instances noted, the underlying costs went through multiple layers of review. However, the supervisor, or individual responsible for approving the journal entries, repeatedly failed to document the results of their review.

Criteria:

CCCI's Procurement Policy Manuals dated November 2016 and October 2018, *Authority Levels for Awards and Amendments*, states, in part:

"Only a Checchi Officer has the authority to sign contract awards and amendments to existing awards from client organizations. The authority to sign transactions under existing client awards may be delegated to other Checchi staff subject to the procedures described herein.

Definitions:

Approved: The person who has reviewed the request and certifies that it is a necessary purchase.

Signature Authority: The person who is authorized to sign new contracts, agreements, other awards, or amendments to existing contractual relationships.

Review and Initialing: The person who must review the agreement, proposal or **payment authorization before the Signature Authority signs it. The reviewer's approval is indicated on the document by his/her initials normally next to the signature line..."**

Effect:

Failure to document the approval of a transaction can result in the processing of unauthorized and potentially unallowable payments.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Detailed Audit Findings

(Continued)

Questioned Costs:

There are no questioned costs associated with this finding as the costs were otherwise deemed to be reasonable, allowable and allocable to the Contract Task Order.

Recommendation:

We recommend that CCCI provide training to employees to ensure that documentation supporting accounting transactions is initiated by both the preparer/requestor and approver as required by **CCCI's Procurement Policy Manual**.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Status of Prior Audit Findings

For the Period October 1, 2017 through June 30, 2019

We requested from CCCI, SIGAR and the USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to CCCI's activities under this Contract Task Order. We identified one limited financial review that contained internal audit report that contained four findings, three of which could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We also identified one audit report that contained four findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow up procedures including discussion with management, reviewed the revised policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that CCCI has taken adequate corrective actions on all prior findings and these findings were not repeated under this audit. The summary of prior audit findings are listed below:

USAID Afghanistan Limited Financial Review of the ADALAT Program for the period March 2017 through March 2018 issued on September 27, 2018

- Finding 1 (Personnel Files): USAID noted that personnel files were missing required documentation, such as the job announcements, interview evaluation document, offer letter, job description, performance evaluation, probationary period evaluation report, and reference check documents.

Status: We selected a sample of labor costs and reviewed to ensure that personnel files were complete and contained required documentation. As such, the finding was not repeated again and no exceptions were noted. Accordingly, the corrective action has been adequately implemented by CCCI.

- Finding 2 (Period of Performance Not Specified): USAID noted that for one employee contract, the duration of the contract was not specified in the contract.

Status: We reviewed agreements for the major subcontractors, as well as selected a sample of subcontractor costs, and noted that all agreements tested included a period of performance. As such, the finding was not repeated again and no exceptions were noted. Accordingly, the corrective action has been adequately implemented by CCCI.

- Finding 3 (Costs Charged to Incorrect Province): USAID noted that one voucher for a grant was charged to an incorrect province.

Status: We selected a sample of grants under contract and tested to ensure the costs were charged to the proper project and cost category. As such, the finding was not repeated again and no exceptions were noted. Accordingly, the corrective action has been adequately implemented by CCCI.

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Status of Prior Audit Findings

(Continued)

Audit Report: SIGAR 17-38-FA "USAID's Results Tracking Phase II (SUPPORT II) Program: Audit of Costs Incurred by Checchi and Company Consulting, Inc." for the Period July 1, 2014 through June 30, 2016, which was conducted by Mayer Hoffman McCann P.C. on behalf of SIGAR, and issued by SIGAR on May 10, 2018

- Finding 1 (Excess Reimbursement for Travel): The audit firm noted that a consultant was reimbursed for travel expenses in an amount greater than the supporting documentation.

Status: During our testing of travel, transportation and per diem transactions, all transactions tested were found to be properly supported. As such, the finding was not repeated again and no exceptions were noted. Accordingly, the corrective action has been adequately implemented by CCCI.

- Finding 2 (Prepaid Rent on Leased Facilities): The audit firm noted that CCCI leased its facilities in Kabul, Afghanistan and paid for its lease one year in advance. Instead of recording as a prepaid expense and recognizing the lease over the one-year period, CCCI reported the entire lease payment when it was made, which is not in accordance with the accrual basis of accounting.

Status: We reviewed the general ledger and noted that CCCI recognized its rent on a monthly basis. As such, the corrective action has been adequately implemented by CCCI.

- Finding 3 (Misclassification of Expenses): The audit firm noted the certain travel expenses were reported as other direct costs on the SPFS.

Status: During our testing of transactions associated with this audit, all transactions reviewed were properly classified on the SPFS. As such, the corrective action has been adequately implemented by CCCI.

- Finding 4 (Fraudulent Time Reported and Billed): The audit report noted that CCCI self-reported a fraudulent act whereby one of its subcontractors billed CCCI at a rate that was significantly greater than the actual compensated labor rate.

Status: During our testing of subcontractor transactions, all invoices for subcontractor costs were in accordance with the terms of the subcontractor agreement. As such, the corrective action has been adequately implemented by CCCI.



CHECCHI AND COMPANY CONSULTING, INC.

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May 7, 2020

Mr. Jeff Ball
Davis Farr LLP
2301 Dupont Drive, Suite 200
Irvine, CA 92612

Subject: Audit of costs incurred by Checchi and Company Consulting, Inc. (CCCI) under United States Agency for International Development Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007 for the Afghanistan Development Assistance for Legal Access and Transparency (ADALAT) Program for the period October 1, 2017, through June 30, 2019.

Dear Mr. Ball:

Thank you for your e-mail dated April 24, 2020, concerning the draft audit report. Listed below are our responses to the findings and questioned costs on the draft audit report.

1. **Finding Number 2020-01: Costs Incurred Outside of SPFS Period (\$16,187 questioned costs)**
As recommended by Davis Farr LLP in your Detailed Audit Findings, we are attaching evidence that the costs incurred prior to the audit period were not previously billed to USAID (Checchi ADALAT invoice to USAID for the period September 1-30, 2017). The Vice President for Finance will establish procedures to review future SPFS's prior to submission to ensure that costs are reported on the accrual basis of accounting, and train staff on these procedures.
2. **Finding Number 2020-02: Unallowable Costs Incurred for Airfare (\$600 questioned costs)**
USAID's Contracting Officer, Adam Walsh, in a meeting at the US Embassy in Kabul on March 7, 2018 – attended by the Project's COR and ACOR as well as CCCI's Project Manager, [REDACTED] – made the determination and verbally approved that "mahram" travel costs are allowable. In the future, CCCI will seek prior written USAID approval for "mahram" travel costs.
3. **Finding Number 2020-03: Approval for International Travel not Requested Timely**
CCCI will, whenever possible, submit requests for international travel to the COR for approval at least three weeks in advance of travel.
4. **Finding Number 2020-04: Approval of Expenses Not Consistently Documented**
CCCI's Vice President for Finance, [REDACTED], has provided further training to all employees to ensure that documentation supporting accounting transactions are initialed by both the preparer/requester and approver as required.

Thank you.

Sincerely,

[REDACTED]

[REDACTED]
Vice President for Finance

CHECCHI AND COMPANY CONSULTING, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-OAA-I-13-00034, Order No. AID-306-TO-16-00007
Afghanistan Development Assistance for Legal Access and Transparency (ADALAT)

Auditor's Rebuttal to CCCI's Response to Findings

For the Period October 1, 2017 through June 30, 2019

CCCI disagreed with two of the findings. We have reviewed management's response for its disagreements and provide the following rebuttals.

Finding 2020-01: Costs Incurred Outside of SPFS Period

CCCI disagreed with this finding indicating that the costs incurred outside of the SPFS period were not previously billed to USAID. As part of its response, CCCI provided its invoice to USAID for the month of September 2017, which is the month prior to the beginning of the period covered by the SPFS. A copy of that invoice is not included as part of this report. While it may be true that CCCI did not invoice for costs that were incurred prior to the beginning of the period covered by the SPFS, the SPFS itself was prepared and presented on the accrual basis of accounting. Under the accrual basis of accounting, these costs should have been excluded from the SPFS. As such, our finding remains unchanged.

Finding 2020-02: Unallowable Costs Incurred for Airfare

CCCI disagreed with this finding indicating that in a meeting with the USAID COR on March 7, 2018, the USAID COR made the determination and **verbally indicated that "mahram" travel is allowable.** We were provided no evidence that USAID had approved the **unallowable "mahram" travel.** As such, our finding remains unchanged.

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

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