

SIGAR

Special Inspector General
for Afghanistan
Reconstruction

SIGAR 21-13 Financial Audit

USAID's Strong Hubs for Afghan Hope and Resilience Program: Audit of Costs Incurred by DAI Global LLC

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



JANUARY
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On November 30, 2014, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee contract for \$73,499,999 to DAI Global LLC (DAI) to support the Strong Hubs for Afghan Hope and Resilience (SHAHAR) program. SHAHAR's objective was to create well-governed Afghan municipalities capable of meeting the needs of growing urban populations; to do so, it provided assistance to the General Directorate of Municipal Affairs, mayors, municipal administrators, and municipal advisory boards.

The contract's original period of performance was November 30, 2014, through November 29, 2017. USAID modified the contract 12 times, which decreased the funding to \$72 million and extended the end date to November 29, 2019.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$11,598,960 in costs charged to the contract from December 1, 2018, through November 29, 2019. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DAI's internal controls related to the contracts; (2) identify and report on instances of material noncompliance with the terms of the contracts, and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DAI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAI's Special Purpose Financial Statement (SPFS). See 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 work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2021

USAID's Strong Hubs for Afghan Hope and Resilience Program: Audit of Costs Incurred by DAI Global LLC

SIGAR 21-13-FA

WHAT SIGAR FOUND

Davis Farr did not find any material weaknesses or significant deficiencies in DAI's internal controls, or any instances of noncompliance with the terms and conditions of the contract. Accordingly, the auditors did not find any questioned costs.

Davis Farr reviewed one prior audit report applicable to the contract and found five findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. The auditors performed follow-up audit procedures and determined that DAI has taken adequate corrective actions on all five findings.

Davis Farr issued an unmodified opinion on DAI's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Davis Farr did not report any findings specific to the SPFS of the contract under review. Therefore, SIGAR is not making any recommendations.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 14, 2021

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

Dr. Tina Dooley-Jones
USAID Mission Director for Afghanistan

SIGAR contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by DAI Global LLC (DAI) under a contract to support the U.S. Agency for International Development's (USAID) Strong Hubs for Afghan Hope and Resilience (SHAHAR) program, created to help Afghan municipalities meet the needs of growing urban populations.¹ The auditors reviewed \$11,598,960 in costs charged to the contract from December 1, 2018, through November 29, 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, Davis Farr did not report any findings related to the contract under review. Therefore, SIGAR is not making any recommendations.

The results of Davis Farr's audit are discussed in detail in the attached report. We reviewed the report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on DAI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DAI's internal control or compliance with the 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.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-184)

¹ The contract number is AID-306-C-14-00016.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

Table of Contents

	<u>Page</u>
Transmittal Letter	i
Background	1
Work Performed	2
Objectives, Scope, and Methodology	2
Summary of Results	5
Review of Prior Findings and Recommendations	5
Summary of DAI's responses	6
Independent Auditor's Report on Special Purpose Financial Statement	7
Special Purpose Financial Statement	9
Notes to Special Purpose Financial Statement	10
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
Status of Prior Findings	18

December 2, 2020

Enclosed is the final report on the financial audit of costs incurred by DAI Global LLC (DAI) under United States Agency for International Development Contract No. AID-306-C-14-00016, for the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program. The audit covers the period December 1, 2018 through November 29, 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 DAI, the Special Inspector General for Afghanistan Reconstruction and the U.S. Agency for International Development. There were no findings or questioned costs identified as a result of our audit.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

Background

On November 30, 2014, the United States Agency for International Development (USAID) awarded Contract No. AID-306-C-14-00016 (Contract) to DAI Global LLC (DAI) to support the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program. The Contract is a cost-plus-fixed-fee (CPFF) completion type contract. SHAHAR is one component of USAID's Sub-National Governance (SNG) program. The overall Assistance Objective (AO) of the SNG program is to improve performance and accountability of governance in Afghanistan. Contributing to the accomplishment of this AO is an intermediate result, which is the primary purpose of SHAHAR, to strengthen Afghan municipalities' abilities to meet citizen priorities and needs in service delivery. To accomplish this purpose, the objective of SHAHAR is to create well-governed, fiscally sustainable Afghan municipalities capable of meeting the needs of a growing urban population. The Program consists of three primary components: (A) assistance to the General Directorate of Municipal Affairs (GDMA); (B) Assistance to mayors and municipal administrators; and (C) assistance to Municipal Advisory Boards (MABS). Each of these components include the following:

- Component A – Interventions at the GDMA level will focus on systematic reviews of municipal performance, dissemination of rules and regulations, mechanisms for feedback, budget approval, management of a pilot municipal block grant fund, establishment of a national mayors' network, and fulfillment of detailed land-use plans in coordination with the Ministry of Urban Development Affairs (MUDA). In addition, a major focus of the Contract is to ensure that training capacity within GDMA is bolstered.
- Component B – Interventions at the municipal government level will focus on implementation of customized capacity-building plans for improved performance, mechanisms for outreach and citizen consultation, revenue generation, improved forecasting, budget formulation and execution, project management including monitoring and evaluation, and mentoring of district municipalities.
- Component C – Interventions targeting MABs will focus on systematic monitoring of municipal development projects and formal mechanisms for both citizen consultation and delivering feedback to municipal governments.

The Contract was awarded in the original amount of \$73,499,999, consisting of [REDACTED] in cost reimbursement and [REDACTED] in fixed fee for the period of performance from November 30, 2014 to November 29, 2017. After 12 modifications, the Contract amount was decreased to \$72,000,000, consisting of [REDACTED] in cost reimbursement and [REDACTED] in fixed fee, and the period of performed was extended through November 29, 2019.

Our audit procedures reviewed \$11,598,960 of total costs plus fixed fee, consisting of [REDACTED] of costs incurred plus [REDACTED] in fixed fee for the period December 1, 2018 through November 29, 2019.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 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 DAI's Special Purpose Financial Statement (SPFS) for the period December 1, 2018 through November 29, 2019. The total costs plus fixed fee reported by DAI were \$11,598,960, consisting of [REDACTED] of costs incurred plus [REDACTED] in fixed fee.

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 DAI's SPFS for the 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.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of DAI's internal control related to the Contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether DAI complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether DAI 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

Total costs plus fixed fee incurred for the period December 1, 2018 through November 29, 2019 were \$11,598,960, consisting of [REDACTED] in cost reimbursement and [REDACTED] in fixed fee. The scope of this audit included the total costs plus fixed fee of \$11,598,960. The period of performance of the Contract is complete. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates identified in the Negotiated Indirect Cost Rate Agreement (NICRA) approved by USAID.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

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 May 11, 2020. Participants included representatives of Davis Farr, DAI, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of DAI;
- Reviewed the Contract 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;
- 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, 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 \$54,600, and additional transactions below \$54,600 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 \$109,200, and additional transactions below \$109,200 to ensure at least 20% of the total amount expended for each cost category was sampled.
 - For low risk categories, we sampled transactions to ensure at least 10% of the costs for each low risk cost category was sampled. No sample was selected for indirect costs as we tested the proper application of indirect cost rates. This included reviewing the NICRA to ensure that DAI's indirect costs did not exceed the approved rates.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under Contract No. AID-306-C-14-00016 Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

Additionally, no sample was selected for the fixed fee as this is a completion type contract with deliverables required to receive the fixed fee. We tested to ensure that the deliverables were submitted as required.

Internal Control Related to the SPFS

We reviewed DAI'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 DAI and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

Compliance with Contract Requirements and Applicable Laws and Regulations

We reviewed the Contract 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 requirements and laws and regulations.

Corrective Action on Prior Findings and Recommendations

We reached out to DAI, SIGAR 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, 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 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 September 24, 2020 via conference call. Participants included representatives from Davis Farr, DAI, 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.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

Summary of Results

Our audit of the costs incurred by DAI under the Contract with USAID identified the following results.

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. There were no findings or questioned costs identified as a result of the audit.

Summary of Findings and Questioned Costs

There were no findings or questioned costs identified as a result of the audit.

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered DAI's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed no 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 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 no 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.

Review of Prior Findings and Recommendations

We requested from DAI, SIGAR and the USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to DAI's activities under the Contract. We identified one prior audit report that contained five findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We performed follow-up procedures, tested transactions and reviewed documentation to determine if these issues occurred under our audit. Accordingly, we have concluded that DAI has taken adequate corrective actions on all prior findings. See the Status of Prior Findings on page 18 for a detailed description of the prior findings and recommendations.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

For the Period December 1, 2018 through November 29, 2019

Summary of DAI's Responses

There were no findings identified as a result of this audit. DAI reviewed the report and did not provide any management comments.

INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT

DAI Global LLC
7600 Wisconsin Avenue, Suite 200
Bethesda, Maryland 20814

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 DAI Global LLC (DAI) under Contract No. AID-306-C-14-00016 (Contract) with the United States Agency for International Development (USAID) to support the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program for the period December 1, 2018 through November 29, 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 an opinion on the effectiveness of the entity's internal control. Accordingly, we express no

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Bethesda, Maryland 20814

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2530 Crystal Drive
Arlington, Virginia 22202

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 DAI under the Contract for the period December 1, 2018 through November 29, 2019 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of DAI, 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 December 2, 2020 on our consideration of DAI'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 DAI's internal control over financial reporting and compliance.



Irvine, California
December 2, 2020

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
 Contract No. AID-306-C-14-00016
 Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

Special Purpose Financial Statement

For the Period December 1, 2018 through November 29, 2019

	<u>Budget</u>	<u>Expenditures</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Revenues:						
AID-306-C-14-00016	██████████	██████████	\$ -	\$ -	\$ -	(3)
Total revenues	██████████	██████████	-	-	-	
Costs incurred:						
Assistance to the General Directorate of Municipal Affairs	██████████	██████████	-	-	-	(4)
Assistance to Municipal Governments	██████████	██████████	-	-	-	(4)
Support to Municipal Advisory Boards	██████████	██████████	-	-	-	(4)
Total costs incurred	██████████	██████████	-	-	-	
Fixed Fee	██████████	██████████	-	-	-	(6)
Total costs plus fixed fee	<u>72,000,000</u>	<u>11,598,960</u>	-	-	-	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(7)

See Notes to Special Purpose Financial Statement

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

Notes to Special Purpose Financial Statement¹

For the Period December 1, 2018 through November 29, 2019

(1) Background

On November 30, 2014, the United States Agency for International Development (USAID) awarded Contract No. AID-306-C-14-00016 (Contract) to DAI Global LLC (DAI) to support the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program. The Contract is a cost-plus-fixed-fee (CPFF) completion type contract. The objective of SHAHAR is to create well-governed, fiscally sustainable Afghan municipalities capable of meeting the needs of a growing urban population. The Program consists of three primary components: (A) assistance to the General Directorate of Municipal Affairs (GDMA); (B) Assistance to mayors and municipal administrators; and (C) assistance to Municipal Advisory Boards (MABS). Each of these components include the following:

- Component A – Interventions at the GDMA level will focus on systematic reviews of municipal performance, dissemination of rules and regulations, mechanisms for feedback, budget approval, management of a pilot municipal block grant fund, establishment of a national mayors’ network, and fulfillment of detailed land-use plans in coordination with the Ministry of Urban Development Affairs (MUDA). In addition, a major focus of the Contract is to ensure that training capacity within GDMA is bolstered.
- Component B – Interventions at the municipal government level will focus on implementation of customized capacity-building plans for improved performance, mechanisms for outreach and citizen consultation, revenue generation, improved forecasting, budget formulation and execution, project management including monitoring and evaluation, and mentoring of district municipalities.
- Component C – Interventions targeting MABs will focus on systematic monitoring of municipal development projects and formal mechanisms for both citizen consultation and delivering feedback to municipal governments.

The Contract was awarded in the original amount of \$73,499,999, consisting of [REDACTED] in cost reimbursement and [REDACTED] in fixed fee for the period of performance from November 30, 2014 to November 29, 2017. After 12 modifications, the Contract amount was decreased to \$72,000,000, consisting of [REDACTED] in cost reimbursement and [REDACTED] in fixed fee, and the period of performed was extended through May 30, 2020.

DAI is an employee-owned, for-profit, international development company based in Bethesda, Maryland. DAI was incorporated in 1970 as Development Alternatives Inc. It has 350 employees in Bethesda, as well as additional staff in offices located in Europe and Nigeria.

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

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

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 SHAHAR Program for the period December 1, 2018 through November 29, 2019. Because the SPFS presents only a selected portion of the operations of DAI, it is not intended to and does not present the financial position, changes in financial position, or cash flows of DAI. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract.

Basis of Accounting

The SPFS was prepared on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when received and expenses are recognized when paid. Additionally, expenses are recognized following the cost principles contained in 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 DAI. DAI uses the exchange rate of the authorized bank or financial institution effecting the conversion of U.S. dollars to local currency for in-country purchases. This foreign currency exchange rate remains in effect until another currency conversion is required.

(3) Revenue

As of November 29, 2019, DAI has reported \$11,598,960 in revenue. This revenue equals the costs incurred plus the fixed fee by DAI under the Contract for the period December 1, 2018 through November 29, 2019.

(4) Cost Categories

The cost categories included in the SPFS are those as identified in the Contract and modifications. DAI further details its costs incurred into other cost categories to more align with its accounting records. Below are the actual costs incurred by DAI using its internal cost categories, excluding the fixed fee:

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
 Contract No. AID-306-C-14-00016
 Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

Notes to Special Purpose Financial Statement

(Continued)

(4) Cost Categories (Continued)

<u>Cost Category</u>	<u>Amount</u>
Labor	██████████
Allowance	██████████
Other direct cost	██████████
Procurement	██████████
Subcontract labor	██████████
Subcontract other direct cost	██████████
Travel, transportation and per diem	██████████
Total costs	██████████

(5) Indirect Costs

DAI’s indirect costs were reviewed and approved by USAID in a Negotiated Indirect Cost Rate Agreement (NICRA) dated April 12, 2019. The following provisional indirect cost rates were applicable to the Contract. There is no separate cost category for indirect costs in the Contract. Instead, indirect costs are included as a component of each of the cost categories reported on the SPFS.

<u>Effective Period</u>	<u>Fringe Benefits</u>			
	<u>Home Office/ Overseas (a)</u>	<u>Part Time and Intermittent (b)</u>	<u>Overhead (c)</u>	<u>G&A (d)</u>
1/1/18 – 12/31/18	██████████	██████████	██████████	██████████
1/1/19 until amended	██████████	██████████	██████████	██████████

Base of Application:

- (a) Total full-time home office and full-time overseas labor dollars
- (b) Total home office part-time and intermittent home office labor dollars (part-time and intermittent overseas labor dollars are not included)
- (c) Total direct labor dollars, bid and proposal (B&P) dollars and applicable fringe benefits
- (d) Total costs excluding general and administrative (G&A) costs and pass-through grants

(6) Fixed Fee

The Contract is a CPFF contract. DAI is entitled to receive the fixed fee in accordance with deliverables as outlined in Section F.3 of the Contract.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

Notes to Special Purpose Financial Statement

(Continued)

(7) Outstanding Fund Balance

As of November 29, 2019, there was no outstanding fund balance under the Contract as the SPFS is prepared under the accrual basis of accounting described in Note 2.

(8) Subsequent Events

DAI has evaluated subsequent events through December 2, 2020, which is the date the SPFS was available to be issued. There were no events subsequent to this date that would impact the SPFS.

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

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

We have audited, 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, the Special Purpose Financial Statement of DAI Global LLC. (DAI) under Contract No. AID-306-C-14-00016 (Contract) with the United States Agency for International Development (USAID) to support the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program for the period December 1, 2018 through November 29, 2019, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated December 2, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered DAI's internal control over financial reporting (internal control) as a basis for designing audit procedures that are 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 DAI's internal control. Accordingly, we do not express an opinion on the effectiveness of DAI's internal control.

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

DAI Global LLC
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Bethesda, Maryland 20814

Office of the Special Inspector General for Afghanistan Reconstruction
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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.

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 DAI, 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
December 2, 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

DAI Global LLC
7600 Wisconsin Avenue, Suite 200
Bethesda, Maryland 20814

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

We have audited, 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, the Special Purpose Financial Statement of DAI Global LLC. (DAI) under Contract No. AID-306-C-14-00016 (Contract) with the United States Agency for International Development (USAID) to support the Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program for the period December 1, 2018 through November 29, 2019, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated December 2, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DAI'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, noncompliance with which could have a direct and material effect on the Special Purpose Financial Statement. 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 no instances of noncompliance or other matters that are 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 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.

DAI Global LLC
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This report is intended for the information of DAI, 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.

Daniel Farn

Irvine, California
December 2, 2020

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

Status of Prior Audit Findings

For the Period December 1, 2017 through November 29, 2019

We requested from DAI, SIGAR and the USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to DAI's activities under the Contract. We identified one prior audit report that contained five findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We performed follow-up procedures, tested transactions and reviewed documentation to determine if these issues occurred under our audit. A summary of prior audit findings is listed below:

Audit Report: SIGAR 19-42 Financial Audit "USAID's Strong Hubs for Afghan Hope and Resilience: Audit of Costs Incurred by **DAI Global LLC**" for the period January 1, 2016 through November 30, 2017, which was conducted by Crowe LLP on behalf of SIGAR, and issued by SIGAR on July 3, 2019

- Finding 2018-01 (Application of NICRA Rates): The audit firm noted that indirect costs were incorrectly applied to certain pass through other direct costs.

Status: We tested the application of indirect costs without exception. As such, the corrective action has been adequately implemented.

- Finding 2018-02 (Uncertified Inventory): The audit firm noted that DAI had uncertified and improperly formatted annual inventory of government property.

Status: We reviewed the inventory listing as of November 2019 and noted that it was properly certified and in the format required by USAID. As such, the corrective action has been adequately implemented.

- Finding 2018-03 (Material Misstatements of SPFS): The audit firm noted that the SPFS omitted revenue and outstanding balance accounts as required by SIGAR.

Status: The SPFS submitted by DAI for our audit was complete and contained all required items. As such, the corrective action has been adequately implemented.

- Finding 2018-04 (Inadequately Supported Property Records): The audit firm noted that DAI's property records did not contain information related to the title holder or source of the initial purchase, and did not provide documentation to support the value of each property item.

Status: We reviewed the property records and found them to be complete. As such, the corrective action has been adequately implemented.

- Finding 2018-05 (Subcontractors Worked Less than Contractually Required): The audit firm noted that DAI self-reported a fraudulent act whereby one of its subcontractors worked less hours than what was contractually required.

DAI GLOBAL LLC

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-14-00016
Strong Hubs for Afghan Hope and Resilience (SHAHAR) Program

Status of Prior Audit Findings

(Continued)

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.

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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