

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

SIGAR Financial Audit 13-3

Audit of Costs Incurred by Futures Group International, LLC  
in Support of USAID's Project for Expanding Access to  
Private Sector Health Products and Services in Afghanistan



JUNE  
2013



**SIGAR**

**Office of the Special Inspector General  
for Afghanistan Reconstruction**

June 6, 2013

Dr. Rajiv Shah  
Administrator  
U.S. Agency for International Development

Dr. S. Ken Yamashita  
Mission Director for Afghanistan  
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Futures Group International, LLC under a USAID contract, "Communications for Behavior Change: Expanding Access to Private Sector Health Products and Services in Afghanistan."<sup>1</sup> The audit covered the period February 15, 2006, through May 12, 2012 and was performed by Regis & Associates with SIGAR oversight. It covered \$37,551,423 in expenditures, \$4,011,141 of which were indirect costs.<sup>2</sup>

Futures Group develops and delivers health and well-being programs at a local level worldwide and principally supports global health objectives of the United States Government, humanitarian organizations and foundations, and other non-governmental organizations. The purpose of this contract was to assist the Afghan government with developing and supporting local health care.

The specific objectives of the audit were to

- render an opinion on the fair presentation of Futures Group's Fund Accountability Statement;<sup>3</sup>
- determine and report on whether Futures Group has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in Futures Group's internal financial controls; and
- identify and report on instances of material noncompliance with terms of the award and with applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of their audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Regis & Associates' audit results and found them to be in accordance with generally accepted government auditing standards.

Regis & Associates found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract and identified no recommendations from prior audits or assessments for follow-up or corrective action. Nevertheless, they reported two internal control deficiencies and two instances of noncompliance, which prompted the auditors to question a total of \$45,445 in costs. The

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<sup>1</sup> USAID contract no. GPO-I-00-04-00015-00.

<sup>2</sup> Regis & Associates' review of indirect costs was limited to re-computing the indirect costs based on indirect rates approved by USAID.

<sup>3</sup> The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

\$45,445 in questioned costs included \$43,044 in unsupported costs<sup>4</sup> and \$2,401 in ineligible costs.<sup>5</sup> The unsupported costs pertained primarily to costs incurred for travel, equipment, medical and life insurance, sales commissions, and conferences and meetings. The ineligible costs related to a fine/penalty on electricity charged to the contract, equipment costs in excess of the vendor invoice amount, and an airfare refund not credited to the contract. See table 1 below.

**Table 1 - Summary of Questioned Costs**

Category	Questioned Costs Total	Ineligible	Unsupported
Other Direct Costs	\$45,445	\$2,401	\$43,044

Given the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

- Determine the allowability of and recover, as appropriate, \$45,445 in questioned costs identified in the report.**

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



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

Enclosure

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<sup>4</sup> Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

<sup>5</sup> Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and for review by USAID to make a final determination regarding allowability.

**SPECIAL INSPECTOR GENERAL  
FOR AFGHANISTAN RECONSTRUCTION**

**REPORT ON**

**FINANCIAL AUDIT OF COSTS INCURRED BY  
FUTURES GROUP INTERNATIONAL, LLC  
UNDER  
CONTRACT NUMBER GPO-I-00-04-00015-00**

**FOR THE PERIOD  
FEBRUARY 15, 2006 THROUGH MAY 12, 2012**



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## EXECUTIVE SUMMARY

### Summary of Results

The Special Inspector General for Afghanistan Reconstruction (SIGAR), contracted with Regis & Associates, PC to perform a financial audit of costs incurred by Futures Group International, LLC (Futures Group) under Contract Number GPO-I-00-04-00015-00, *Expanding Access to Private Sector Health Products and Services in Afghanistan*, between Futures Group and United States Agency for International Development (USAID) for the period February 15, 2006 through May 12, 2012. As a result of applying audit procedures in accordance with *Government Auditing Standards*, we concluded that the Fund Accountability Statement presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and items and technical assistance directly procured by United States Agency for International Development, for the period February 15, 2006 through May 12, 2012, in accordance with the terms of the agreement, and in conformity with accounting principles generally accepted in the United States of America. However, we questioned costs totaling \$45,445, as shown in the Fund Accountability Statement on page 2 of this report, and in the Summary of Findings and Recommendations section beginning on page 8 of this report. A questioned cost is an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of Federal funds; or a finding that, at the time of testing, such cost is not supported by adequate documentation.

**Costs Claimed and Questioned Costs:** Futures Group claimed total costs of \$37,551,423 during the period covered by the financial audit. As a result of testing a judgmentally selected sample of transactions, we questioned costs as shown below:

Questioned Costs Type	Amount
Unsupported	\$ 43,044
Ineligible	\$ 2,401
<b>Total</b>	<b>\$ 45,445</b>

Details of the questioned costs are discussed in Findings 1 and 2 in the Summary of Findings and Recommendations section beginning on page 8 of this report.

**Internal Control and Compliance:** The detailed results from applying our audit procedures showed instances of non-compliance with contract provisions, regulations, or USAID specific requirements. The areas of non-compliance identified are presented in the Summary of Findings and Recommendations section beginning on page 8 of this report, and in the Independent Auditors' reports on Internal Control and Compliance. The areas of non-compliance are presented below:

- Adequate records were not retained to support claimed costs.
- Costs claimed were not allowable or reasonable.

**Corrective Action on Prior External Audit Report Recommendations or Other External Assessment Recommendations:** Our review of prior external audit reports or other external assessments did not disclose any recommendations. Hence, no follow-up or corrective actions are required to be taken by auditee.

**Audit Objectives, Scope, and Methodology:** The objectives of the audit were:

Audit Objective 1 - Internal Controls: Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 2 – Compliance: Perform tests to determine whether the audited entity complied, in all material respects, with the award 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.

Audit Objective 3 - Corrective Action on Prior Audit Recommendations: Determine and report on whether the audited entity has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.

Audit Objective 4 - Fund Accountability Statement: Express an opinion on whether the Fund Accountability Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Our audit covered the period February 15, 2006 through May 12, 2012.

We conducted this financial audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. As part of that process, we: 1) performed audit planning and risk assessment to gain an understanding of the nature of Futures Group's contract awarded by USAID; Futures Group's accounting system used for recording costs under the contract; and the conditions under which Futures Group managed its USAID contract, by reviewing such items as the contract, modifications, applicable regulations, accounting policies and procedures manuals, reports by others, and internal controls over contract financial management and administration; 2) evaluated and obtained a sufficient understanding of the audited entity's internal control related to the award; assessed control risk; and identified and reported on significant deficiencies including material internal control weaknesses; 3) determined whether the audited entity complied, in all material respects, with the award requirements and applicable laws and regulations; and identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred; 4) determined and reported on whether the audited entity has taken adequate corrective action on prior

external audit report recommendations or other external assessment recommendations; and 5) expressed an opinion on whether the Fund Accountability Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Based on our initial assessment of risk related to controls and adequacy of contract financial reporting, we judgmentally selected a sample of CPSRs and tested the allowability, allocability and reasonableness of costs claimed by Futures Group on the contract. The Contract Project Status Report (CPSR) detailed the costs charged to the contract, for the periods covered by the total amount claimed on the contract. We selected four CPSR with highest amounts, in each of the years 2006 through 2012, totaling 28; and the two CPSRs with negative balances. The total sample of claimed costs selected and tested represented, approximately, 49% of the total claimed costs, less applied fee by Futures Group. We performed our audit procedures during the period December 19, 2012, through March 15, 2013.

## **Background**

Futures Group develops and delivers local health and well-being solutions worldwide. Futures Group principally supports global health objectives of the United States Government, humanitarian organizations and foundations, and other non-governmental organizations.

The Futures Group entered into a cost plus fixed fee contract number GPO-I-00-04-00015-00, *Expanding Access to Private Sector Health Products and Services in Afghanistan*, with the United States Agency for International Development (USAID) for the period February 15, 2006 through May 12, 2012; and received payments of approximately \$37.5 million, over a 76 month period. The purpose of this contract was to assist the Afghanistan government with developing and supporting local health care solutions.

## **Exit Conference**

We held an exit conference on May 1, 2013, with personnel from Futures Group, USAID and SIGAR to discuss the results of the audit. The draft audit report findings and recommendations were discussed, and Futures Group concurred with the findings and recommendations. Below is our summarization of Futures Group's written response to the draft audit report. The complete text of Futures Group's response is attached to this report as Appendix- A.

## **Summary Auditee's Comment to Draft Report**

In its written response, Futures Group's management concurred with the findings and recommendations. Futures Group's management also stated that they will refund to USAID the ineligible costs and unsupported costs, to the extent that satisfactory transaction records are not identified for the unsupported costs.



## **INDEPENDENT AUDITORS' REPORT ON THE FUND ACCOUNTABILITY STATEMENT**

To the Board of Directors  
Futures Group International, LLC  
One Thomas Circle, NW, Suite 200  
Washington, DC 20005

We have audited the Fund Accountability Statement of Futures Group International, LLC for contract number GPO-I-00-04-00015-00 for the period February 15, 2006 through May 12, 2012. The Fund Accountability Statement is the responsibility of Futures Group International, LLC's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit of the Fund Accountability Statement, in accordance with 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 Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and items and technical assistance directly procured by United States Agency for International Development, for the period February 15, 2006 through May 12, 2012, in accordance with the terms of the agreement, and in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports, dated March 15, 2013, on our consideration of Futures Group, Inc.'s internal control over financial reporting, and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of Futures Group International, LLC, United States Agency for International Development, and Special Inspector General for Afghanistan Reconstruction. 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.

*Regis & Associates, PC*

Regis & Associates, PC  
Washington, DC

March 15, 2013

**FUTURES GROUP INTERNATIONAL, LLC  
 FUND ACCOUNTABILITY STATEMENT FOR  
 CONTRACT NUMBER GPO-I-00-04-00015-00 WITH  
 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
 FEBRUARY 15, 2006 THROUGH MAY 12, 2012**

<b>Revenues</b>	<b>Budget</b>	<b>Actual</b>	<b>Questioned Costs</b>		<b>Notes</b>
			<b>Unsupported</b>	<b>Ineligible</b>	
Total Award Contract Number GPO-I-00-04-00015-00	\$38,936,211	\$37,551,423			
<b>Total Revenue</b>	<b>\$38,936,211</b>	<b>\$37,551,423</b>			
<b>Costs Incurred</b>					
Work Days Ordered	\$ 4,366,922	\$ 4,044,738			
Overseas Allowances	\$ 1,397,087	\$ 1,370,820			
Other Direct Costs	\$ 6,983,408	\$ 6,856,672	\$43,044	\$2,401	3
Subcontracts & Grants	\$19,975,002	\$19,310,395			
Indirect Costs	\$ 4,183,962	\$ 4,011,141			
Ceiling Fee	\$ 2,029,830	\$ 1,957,657			
<b>Total Cost Incurred</b>	<b>\$38,936,211</b>	<b>\$37,551,423</b>	<b>\$43,044</b>	<b>\$2,401</b>	
<b>Outstanding Fund Balance</b> (Total Revenue less Total Costs Incurred)	<b>\$ 0</b>	<b>\$ 0</b>			

*The accompanying notes are an integral part of this Fund Accountability Statement*

## NOTES TO THE FUND ACCOUNTABILITY STATEMENT

### NOTE 1: ORGANIZATION AND PURPOSE

Futures Group International, LLC (Futures Group) develops and delivers local health and well-being solutions worldwide. Futures Group principally supports global health objectives of the United States Government, humanitarian organizations and foundations, and other non-governmental organizations.

The Futures Group entered into a cost plus fixed fee contract number GPO-I-00-04-00015-00, with the United States Agency for International Development (USAID) for the period February 15, 2006 through May 12, 2012; and received payments of approximately \$37.5 million, over a 76 month period. The purpose of this contract was to assist the Afghanistan government with developing and supporting local health care solutions.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The accompanying financial statement has been prepared in accordance with accounting principles, generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants.

#### **Reporting Entity**

The accompanying Fund Accountability Statement reports the Contract revenues, costs incurred and fund balance for the period February 15, 2006 through May 12, 2012, in accordance with the terms of the Contract, and in conformity with accounting principles generally accepted in the United States of America.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Fund Accountability Statement of the Contract is reported, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recognized when costs are incurred.

### NOTE 3: UNSUPPORTED AND INELIGIBLE COSTS

There were unsupported costs totaling, approximately, \$35,810 included in “other direct costs” claimed by Futures Group. The costs were for:

- Travel and Travel Related, \$6,310;
- Conferences & Meetings, \$3,180;
- Office Supplies, \$26;
- Equipment, \$10,992;
- Medical & Life Insurance, \$3,000;
- Purchased Services, \$1,569;

- Sales Commission, \$7,569;
- Warehouse Expense, \$762;
- Local Consultant, \$909;
- Bank Charges, \$1,149; and
- Cost of Living Adjustment, \$344.

As a result of these unsupported costs, indirect costs chargeable to the contract were over-applied by \$7,234, which resulted in unsupported other direct costs, totaling \$43,044. See Finding 1 for detail.

Also included in the “other direct costs” claimed are ineligible costs totaling, approximately, \$1,997. The costs were for:

- Fine/Penalty on Electricity, \$454;
- Airfare unapplied refund, \$613; and
- Equipment, \$930.

As a result of these ineligible costs, indirect costs chargeable to the contract were over-applied by \$404, which resulted in ineligible other direct costs, totaling \$2,401. See Finding 2 for detail.



## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

To the Board of Directors  
Futures Group International, LLC  
One Thomas Circle, NW, Suite 200  
Washington, DC 20005

We have audited the Fund Accountability Statement of Futures Group International, LLC for contract number GPO-I-00-04-00015-00, for the period February 15, 2006 through May 12, 2012, and have issued our report thereon, dated March 15, 2013.

We conducted our audit in accordance with *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 Fund Accountability Statement is free of material misstatement.

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

In planning and performing our audit of the Fund Accountability Statement of Futures Group International, LLC for contract number GPO-I-00-04-00015-00, for the period February 15, 2006 through May 12, 2012, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures, and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be a deficiency under standards established by the American Institute of Certified Public Accountants (AICPA).

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 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. We noted two instances involving internal control and its operation that we consider to be deficiencies, as defined above. Those instances are detailed in Findings 1 and 2 in the Summary of Findings and Recommendations section of this report.

This report is intended for the information of Futures Group International, LLC, United States Agency for International Development, and Special Inspector General for Afghanistan Reconstruction. 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.

*Regis & Associates, PC*

Regis & Associates, PC  
Washington, DC

March 15, 2013



## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Board of Directors  
Futures Group International, LLC  
One Thomas Circle, NW, Suite 200  
Washington, DC 20005

We have audited the Fund Accountability Statement of Futures Group International, LLC for contract number GPO-I-00-04-00015-00, for the period February 15, 2006 through May 12, 2012, and have issued our report thereon, dated March 15, 2013.

We conducted our audit in accordance with *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 Fund Accountability Statement is free of material misstatement resulting from violations of agreement terms, and laws and regulations that have a direct and material effect on the determination of the Fund Accountability Statement amounts.

Compliance with agreement terms, and laws and regulations applicable to Futures Group International, LLC is the responsibility of Futures Group International, LLC's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of Futures Group International, LLC's compliance with certain provisions of agreement terms, and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed two instances of noncompliance that are required to be reported here under *Government Auditing Standards*. Those instances are detailed in Findings 1 and 2 in the Summary of Findings and Recommendations section of this report.

This report is intended for the information of Futures Group International, LLC, United States Agency for International Development, and Special Inspector General for Afghanistan Reconstruction. 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.

*Regis & Associates, PC*

Regis & Associates, PC  
Washington, DC

March 15, 2013

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### **Finding 1: Adequate records were not retained to support claimed costs**

**Criteria:** Federal Acquisition Regulation Subpart 4.7-Contractor Records Retention, Section 4.703, Policy, states that "...contractors shall make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form, and other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General for three (3) years after final payment or for certain records..."

**Condition:** Costs claimed as "other direct costs" totaling approximately, \$35,810 were unsupported. The costs were for:

- Travel and Travel Related, \$6,310;
- Conferences & Meetings, \$3,180;
- Office Supplies, \$26;
- Equipment, \$10,992;
- Medical & Life Insurance, \$3,000;
- Purchased Services, \$1,569;
- Sales Commission, \$7,569;
- Warehouse Expense, \$762;
- Local Consultant, \$909;
- Bank Charges, \$1,149; and
- Cost of Living Adjustment, \$344.

As a result of these unsupported costs, indirect costs chargeable to the contract were over-applied by \$7,234, which resulted in unsupported other direct costs, totaling \$43,044.

**Cause:** Futures Group's management stated that the unsupported costs generally reflected transactions that occurred during 2006 and 2007, and that their inability to provide the records supporting the \$35,810 was due to lack of sufficient emphasis on the check-out and re-filing of records during those periods.

**Effect:** As a result of the condition noted above, it cannot be confirmed that the goods and services were procured for the amounts reported, and that the U.S. Government received value for its money. There is also a risk that costs claimed may be unallowable.

**Recommendation 1:** We recommend that Futures Group refund the claimed amount, \$43,044, if adequate supporting documentation cannot be provided timely.

### **Future Group's Response**

In its written response, Futures Group's management concurred with the finding and recommendation, and stated that they will refund the unsupported costs to USAID, to the extent that satisfactory transaction records are not identified.

## **Finding 2: Costs claimed were not allowable or reasonable**

**Criteria:** Federal Acquisition Regulation (FAR) Subpart 31.2-*Contracts with Commercial Organizations*, Section 201-2, *Determining Allowability*, states that “...(a) A cost is allowable only when the cost complies with all of the following requirements: (1) Reasonableness. (2) Allocability. (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances. (4) Terms of the contract. (5) Any limitations set forth in this subpart.”

Also, FAR Subpart 31.205-15- *Fines, penalties, and mischarging costs*, states that “(a) Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer.”

**Condition:** Ineligible costs totaling, approximately, \$1,997 were included in the “other direct costs” claimed. We noted that a fine/penalty was charged to the contract, a refund on airfare was not credited to the contract, and an amount recorded and charged for equipment purchased was greater than amount on vendor’s invoice. The costs were for:

- Fine/Penalty on Electricity, \$454;
- Airfare unapplied refund, \$613; and
- Equipment, \$930.

As a result of these ineligible costs, indirect costs chargeable to the contract were over-applied by \$404, which resulted in ineligible other direct costs, totaling \$2,401.

**Cause:** Futures Group’s management stated that they could not explain why the airfare refund was not credited to the contract, and that an inaccurate amount was charged for equipment due to data entry error that escaped their control process. Futures Group’s management indicated that the fine/penalty on electricity is an allowable expense under the contract.

**Effect:** As a result of the condition noted above, actual costs of the project were not reflected, which undermines full accountability and transparency required by U.S. Government.

**Recommendation 2:** We recommend that Futures Group refund the \$2,401 in unallowable costs claimed and collected.

### **Future Group Response**

In its written response, Futures Group’s management concurred with the finding and recommendation, and stated that they will refund the ineligible costs to USAID.

## Appendix A – Futures Group’s Response to the Draft Report



May 8, 2013

### RE: Auditee's Response to the Draft Audit Report

#### Summary

The financial audit conducted by Regis & Associates was thorough and covered more than 24,000 transactions under the firm’s USAID Contract GPO-I-00-04-00015-00. A total of over \$18M (49% of the total contract value) in program expenses was reviewed over a 6 year period, in which more than 70% of the costs incurred in Afghanistan. Futures Group accepts the opinion that the Fund Accountability Statement for the contract was a fair and materially correct presentation of revenue, costs incurred and reimbursed, as well as services delivered to USAID. Further, the careful review of transactions, systems, policies, procedures, and controls revealed only two areas of questioned costs as summarized below and compared to the total contract.

Questioned Cost Type	Direct Cost Amount	%Total Direct Costs Claimed	Transactions	% Total Transactions	Cost Claimed
Unsupported	\$35,810	0.11%	21	0.09%	\$43,044
Ineligible	\$1,997	0.01%	3	0.01%	\$2,401
TOTAL	\$37,807	0.12%	24	0.10%	\$45,445

The unsupported costs are the result of records management challenges in the early years of the contract and while the absence of documentation prevents a validation of controls application, the absence of controls findings on the 99.9% of supported costs reflects that the business systems and operating environment of the firm is sound. The ineligible costs are characterized by corrective transactions lacking traceability.

Overall, Futures Group notes there were no findings with respect to financial systems, purchasing, or cash controls applied in the execution of the contract. The records management issues identified in the audit were corrected in 2009 and no questioned cost was incurred in the final two years of the project.

Lack of documentation is a financial and contract compliance deficiency that in Futures Group’s opinion should be rectified through either delivery of the required documentation or a credit to USAID. To the extent that Futures cannot identify additional documentation to support those expenses, Futures will deliver the recommended refund.

One Thomas Circle NW, Suite 200  
Washington, DC 20005 USA  
TEL 202.775.9680 FAX 202.775.9684  
[www.futuresgroup.com](http://www.futuresgroup.com)

**Findings and Assessments**

Futures Group concurs with the first audit finding of a deficiency in consistent application of records management practices in the early period of the contract; however, we note that there is no evidence of a control deficiency other than the absence of supporting documentation. The second finding, while consistent with the test of reasonableness and allocability, is misrepresented in the audit report by being referred to as not allowable. None of the costs is expressly unallowable and ultimately the questioned costs are minor transaction errors.

***Finding 1: Adequate records were not retained to support claimed costs***

The unsupported costs generally reflect transactions in 2007 and 2006. Futures Group management observed that the business systems during that period did not place sufficient emphasis on the check-out and re-filing of transaction records. In addition, the expense invoices were only filed in hardcopy during the period creating records management challenges when documentation was updated or corrected. Post transaction documentation controls were applied within the operations team supporting the program, as the process for transaction validation was not consistently updated to include the original accounting records as they were filed. Appending documentation after expense verification likely resulted in the records management issue and the misapplication of the invoice in the accounts payable files which are stored on a monthly basis.

The noted deficiency has been corrected by:

- a) The addition of electronic records retention as an additional supplement to hardcopy document storage
- b) Updates in the records check-out/in process, as well as clearer practices for post transaction documentation supplementation/clarification
- c) Documentation of a Corporate Records Management Policy

With no documentation deficiencies found in the last two years of the contract, the application of actions identified above has had in fact corrected the deficiency.

***Finding 2: Costs claimed were not allowable or reasonable***

The ineligible costs represent distinct issues and apparent causes. Futures Group management offered the following observations:

- a) Penalty on utilities payment – the transaction description which originated from the Afghanistan project Finance Manager is questionable and likely resulted in subsequent clarifying documentation that was not appended to the originally filed transaction documentation. Based on the records reviewed this costs is attributed to the contract (meeting the allocability test), reasonable, and not expressly unallowable.
- b) Unapplied airfare refund – a credit transaction is uncommon and the program operations specialist accountable for reviewing the transaction likely followed-up with the

One Thomas Circle NW, Suite 200  
Washington, DC 20005 USA  
TEL 202.775.9680 FAX 202.775.9694  
[www.futuresgroup.com](http://www.futuresgroup.com)

- accounting department in posting a credit in a subsequent period.
- c) Equipment cost – the posted cost was likely inclusive of a 6.7% local VAT tax application that was emerging at that time (2007) in Afghanistan and was not fully documented in the transaction record.

The issues outlined above have been corrected through a number of process improvements and training. Notably, none of these issues was reoccurring and there is no systemic failure in the controls process is evident.

- a) A comprehensive Field Finance Manual and orientation training has been implemented to ensure both that transactions are correctly documented/described and that local vendor payments are processed in a timely fashion. Procedures have been updated for local transactions to reflect partial payment within purchasing terms of unquestioned amounts. Under those procedures, resolved questioned cost may be subsequently billed and paid. The procedural correction limits any late payment charges.
- b) Travel policy and procedures were updated and implemented in 2008. The issue of a failure to apply an airfare credit occurred in 2007. The additional reconciliation steps integrated into the revised procedures ensures that all credits are properly applied to the relevant final cost objectives.
- c) The application of VAT tax in Afghanistan has been confusing as legislation and implementation of new obligations emerged in the early period of the contract. Additional cost coding instructions have been implemented for transaction expenses which are related to VAT. Those instructions have been integrated into the Field Finance Manual and training was conducted for both the operations team and the field finance team.

#### ***Response to Recommendations***

Futures Group will continue to search records for documentation related to the unsupported costs. To the extent that satisfactory transaction records are not identified, Futures will refund the claimed cost related to all transactions identified as unsupported. The costs identified as ineligible are not material. As such Futures believes it is in the best interest of the firm and USAID to apply a refund of the associated claimed costs as opposed to extending discussion and documentation of the three transactions.

Certified by:



Timothy M. Schur  
Chief Financial Officer

One Thomas Circle NW, Suite 200  
Washington, DC 20005 USA  
TEL 202.775.9680 FAX 202.775.9694  
[www.futuresgroup.com](http://www.futuresgroup.com)

## 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.

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

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- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
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- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: [sigar.pentagon.ccr.mbx.public-affairs@mail.mil](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202