

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 14-9 Financial Audit

USAID's Afghanistan Rule of Law-Informal (ARL-I) Project
and Services Under Program and Project Offices for Results
Tracking (SUPPORT) Project: Audit of Costs Incurred by
Checchi and Company Consulting, Inc.



OCTOBER
2013



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 29, 2013

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

Mr. William Hammink
Afghanistan Mission Director, U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Checchi and Company Consulting, Inc. (Checchi) under two USAID contracts. These contracts supported two USAID initiatives: (1) the Afghanistan Rule of Law - Informal (ARL-I) project¹ and the Services Under Program and Project Offices for Results Tracking (SUPPORT) project.² The audit was performed by Crowe Horwath LLP and covered \$55,176,633 in expenditures.

The main objective of the ARL-I contract was to strengthen and facilitate the operation of traditional alternate dispute resolution, support state justice mechanisms, and increase the capacity of the state justice system in Afghanistan. Under this contract, Checchi incurred costs of \$14,380,884 from March 19, 2010, through September 15, 2011.

The SUPPORT contract was designed to provide third party monitoring support services to USAID/Afghanistan's Program and Project Development Office (PPDO). These services included updating, improving, and overseeing implementation of USAID/Afghanistan's management information system, monitoring of program results against inter-agency and State Department performance indicators, producing interim or final evaluations of programs and projects, and organizing and providing logistical support to workshops, conferences, and meetings. From October 9, 2006, through August 27, 2012, Checchi incurred costs of \$40,795,749 to support this initiative.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of Checchi's Fund Accountability Statement;³
- determine and report on whether Checchi has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in Checchi's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and 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 Crowe Horwath's audit results and found them to be in accordance with generally accepted government auditing standards.

¹ USAID contract no. DFD-I-000-04-00170-00 to develop the capacity of Afghanistan's informal justice system.

² USAID contract no. 306-M-00-07-00502-00 to improve USAID/Afghanistan's program information system and reporting products.

³ 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.

Crowe Horwath 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, Crowe Horwath reported seven internal control deficiencies and six instances of noncompliance, which prompted the auditors to question a total of \$694,736 in unsupported costs.⁴ See table 1 below. The audit did not identify any ineligible costs.⁵

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Security	\$270,507		\$270,507
Other Direct Costs	\$424,229		\$424,229
Totals	\$694,736	\$0	\$694,736

In addition, the audit found that Checchi had not remitted an estimated \$179 in interest revenue earned on advances given by USAID.

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

1. **Determine the allowability of and recover, as appropriate, \$694,736 in questioned costs identified in the report.**
2. **Recover the estimated \$179 in interest revenue earned from advances provided.**
3. **Advise Checchi to address the seven internal control findings identified in the report.**
4. **Advise Checchi to address the six compliance findings identified in the report.**

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



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-014)

⁴ Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

⁵ Ineligible costs are unreasonable; prohibited by the audited contract or applicable laws and regulations; or not award-related. Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for review by USAID to make a final determination regarding allowability.



Checchi and Company Consulting, Inc.

Fund Accountability Statement

**Afghanistan Rule of Law: Informal (ARL-I) and Services Under Program and Project Offices for
Results Tracking (SUPPORT) Projects**

For the Period October 9, 2006, through August 27, 2012

(With Independent Auditor's Report Thereon)

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Transmittal Letter

October 18, 2013

To the Board of Directors and Management of Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, D.C. 20036-3812

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of Checchi and Company Consulting, Inc.'s ("Checchi") contract task orders with the United States Agency for International Development funding the Afghanistan Rule of Law: Informal (DFD-I-00-04-00170-00) and Services Under Program and Project Offices for Results Tracking (306-M-00-07-00502-00) projects.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Fund Accountability Statement, report on internal control, and report on compliance. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of Checchi and SIGAR provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. We have incorporated management's responses to the audit findings along with our rebuttal, as appropriate.

Thank you for providing us the opportunity to work with you and to conduct the audit of Checchi's Afghanistan Rule of Law: Informal and Services Under Program and Project Offices for Results Tracking projects.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA Partner
Crowe Horwath LLP

Summary

Background

Checchi & Company Consulting, Inc. (“Checchi”) entered into two contract agreements with the United States Agency for International Development (“USAID”). The first, entitled, the Afghanistan Rule of Law - Informal (“ARL-I”), was intended to strengthen and facilitate the operation of traditional alternate dispute resolution, support state justice mechanisms, and increase the capacity of the state justice system. The second, entitled the Services Under Program and Project Offices for Results Tracking (“SUPPORT”), was intended to take on certain project development and program office functions at USAID/Afghanistan.

The ARL-I contract task order – DFD-I-00-04-00170-00 – incorporated an initial ceiling price of \$9,982,995 and a period of performance of March 19, 2010, through March 18, 2011. Through five subsequent contract modifications and a No Cost Extension approved by USAID, the final completion date was established as September 15, 2011, with a ceiling price of \$14,477,344. At project end, Checchi had expended \$14,380,884 under the ARL-I contract task order.

The SUPPORT contract task order – 306-M-00-07-00502-00 – incorporated an initial ceiling price of \$13,676,560 and a period of performance of October 9, 2006, through October 9, 2009. Through fifteen subsequent contract modifications, the final completion date was established as August 27, 2012, with a ceiling price of \$41,342,744. At project end, Checchi had expended \$40,795,749 under the SUPPORT contract task order.

Throughout the periods of performance, Checchi collaborated with citizens in Afghanistan, community elders and leaders, USAID, and various organizations receiving USAID funding. As reported in Checchi’s final reports, program results section (unaudited by Crowe) included:

- Linking of Formal and Informal Justice sectors through collaboration and outreach (ARL-I);
- Establishment of case referrals between the Formal and Informal sectors, including 268 cases being referred between the state and ADR actors in the pilot districts (ARL-I);
- Developed decision letter booklets for use by the elders in recording dispute records and for subsequent transfer to the state (ARL-I);
- Provided 128 legal training workshops to more than 4,801 elders;
- Provision of third party monitoring support services to USAID, including completion of 114 evaluations/assessments/designs and other tasks requested by USAID (SUPPORT); and
- Hosted 126 conferences and workshops attended by 3,243 participants for USAID and its implementing partners (SUPPORT).

ARL-I project work concluded in August of 2011, while SUPPORT project work concluded in June of 2012. Both contracts have been closed.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Checchi’s Afghanistan Rule of Law: Informal and Services Under Program and Project Offices for Results Tracking projects.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Task ordered by the U.S. Government for Reconstruction Activities in Afghanistan*:

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 Findings and Recommendations

Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the fund accountability statement.

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 accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Scope

The scope of the audit included the periods from October 9, 2006, through August 27, 2012, for the SUPPORT project and March 19, 2010, through September 15, 2011, for the ARL-I project. The audit was limited to those matters and procedures pertinent to the task orders that have a direct and material effect on the Fund Accountability Statement ("FAS") and evaluation of the presentation, content, and underlying records of the FAS. The audit included reviewing the financial records that support the FAS to determine if there were material misstatements and if the FAS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting; and
- Special Tests and Provisions, including matters pertaining to approval of certain personnel and compensation of third country nationals and cooperating country nationals.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the Fund Accountability Statement, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit findings and review comments.

For purposes of meeting Audit Objective 1 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by Checchi. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 2 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contracts. Crowe identified – through review and evaluation of the task orders executed by and between Checchi and USAID, the Federal Acquisition Regulation (“FAR”), and the USAID Acquisition Regulation (“AIDAR”) – the criteria against which to test the Fund Accountability Statement and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, invoices submitted to USAID, procurements, inventories, assets that were disposed of or otherwise transferred after the task orders' performance periods, and quarterly financial and activity reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess Checchi's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements (“NICRA”) and associated task order restrictions.

To obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action, Crowe inquired of Checchi and USAID regarding prior audits and reviews. There were no such items pertaining to the contract task orders under audit.

With regard to Audit Objective 4 pertaining to the Fund Accountability Statement, transactions were selected from the financial records underlying the FAS and the transactions were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the FAS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

Due to the location and nature of the task order work, some financial records and subcontractors were and are still located in Afghanistan. As such, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified nine findings due to the underlying issue being considered significant deficiencies in internal control, material weaknesses in internal control, and/or noncompliance with rules, laws, regulations, or the terms and conditions of the task orders. Matters that were identified during the course of the audit, but were not classified as findings because they did not meet the aforementioned three criteria, were either reported within a management letter dated October 18, 2013, or were communicated verbally to Checchi.

Crowe issued an unqualified opinion on the Fund Accountability Statement.

Crowe also reported on both Checchi's compliance with the applicable laws, rules, regulations, and the terms and conditions of the task orders and the internal controls over compliance. Two material weaknesses in internal control, five significant deficiencies in internal control, and six instances of

material noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$694,736 in costs was questioned.

Finding 2013-03 includes \$179 in estimated interest that is payable to the Government based on Checchi's obtaining reimbursement for costs prior to the charges being eligible for reimbursement. This amount is not presented as a questioned cost as the amount reflects foregone interest that would have been received or earned by the Government and does not have an impact on the costs incurred.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to the Checchi's financial performance under the contract task orders. Per communications from Checchi and USAID, no such reviews, evaluations, or audits were conducted that resulted in final reports being issued. Therefore, no corrective action plans were required of Checchi, and Crowe did not perform procedures to determine if adequate corrective action had been taken to address prior findings and observations. This summary is intended to present an overview of the results of procedures completed for the purposes described herein and is not intended to be a representation of the audit's results in their entirety.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2013-01	Unreasonable Costs Resulting from Sole Source and Undocumented Competitive Procurements	\$670,151	\$670,151
2013-02	Equipment and Property Inventories and Reconciliations to the Financial Records	\$24,585	\$694,736
2013-03	Untimely Payment of Subcontractors	\$0	\$694,736
2013-04	Internal Controls: Approval of Procurement Contracts	\$0	\$694,736
2013-05	Failure to Notify the Office of Small and Disadvantaged Business Utilization	\$0	\$694,736
2013-06	Unauthorized Property Transfers	\$0	\$694,736
2013-07	Undocumented EPLS and Background Checks	\$0	\$694,736
2013-08	Undocumented Control Activities: Reviews of Reports and Reimbursement Requests	\$0	\$694,736
2013-09	Reporting: Unsubmitted Quarterly Reports and Late Submissions	\$0	\$694,736
Total Questioned Costs			\$694,736

Summary of Management Comments

Management generally accepts the findings as written with the exception of findings pertaining to procurement and discrepancies and unsupported amounts identified within the projects' physical inventories. Management asserts that the procurements, including those conducted via sole source and competitive procedures, were adequate to support the reasonableness of costs. Management also contends that the errors in the SUPPORT project's physical inventory and unreconciled differences between the inventory and the entity's financial records do not reflect unsupported charges.

References to Appendices

Appendix A includes the Views of Responsible Officials, which are management's responses to the findings presented within the report. The auditor's rebuttal to management's comments are incorporated as **Appendix B**.

INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

To the Board of Directors and Management of Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, D.C. 20036-3812

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

Report on the Fund Accountability Statement

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the fund accountability statement of Checchi and Company Consulting, Inc. ("Checchi") and related notes to the Statement, with respect to the Afghanistan Rule of Law: Informal and Services Under Program and Project Offices for Results Tracking projects for the period October 9, 2006, through August 27, 2012, and have issued our report thereon dated October 18, 2013.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix V of solicitation ID05130041 ("Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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 Fund Accountability Statement referred to above presents fairly, in all material respects, program revenues and costs incurred for the indicated period in accordance with the requirements established by the Special Inspector General for Afghanistan Reconstruction in Appendix V of the contract.

Basis of Presentation

We draw attention to Note 1 to the statement, which describes the basis of presentation. The schedule was prepared by Checchi on the basis of the financial reporting provisions of Appendix V of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of Checchi and Company Consulting, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated October 18, 2013, on our consideration of Checchi's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.


Crowe Horwath LLP

October 18, 2013
Washington, D.C.

Fund Accountability Statement

Cecchi and Company Consulting, Inc.
Contract Numbers 306-M-00-07-00502-00 and DFD-I-00-04-00170-00
For the Period October 9, 2006, through August 27, 2012

	Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
<i>Revenues</i>					
Afghanistan Rule of Law - Informal	\$14,477,344	\$14,380,884			
Services Under Program and Project Officers for Results Tracking	<u>\$41,342,744</u>	<u>\$40,795,749</u>			
Total Revenue	<u>\$ 55,820,088</u>	<u>\$ 55,176,633</u>			4
<i>Costs Incurred</i>					
<i>Afghanistan Rule of Law - Informal</i>					
Direct Labor	\$3,888,255	\$3,872,568	-	-	
Other Direct Costs	<u>\$10,589,089</u>	<u>\$10,508,316</u>	-	-	
Sub-Total: Afghanistan Rule of Law - Informal	<u>\$14,477,344</u>	<u>\$14,380,884</u>	-	-	
<i>Services Under Program and Project Officers for Results Tracking</i>					
Direct Labor	\$23,420,130	\$22,961,582	-	-	
Public Information Expenditures	\$17,888	\$17,888	-	-	
PMP Surveys Data Collection	\$174,671	\$174,671	-	-	
Security	\$2,806,195	\$2,801,293	-	270,507	A
Other Direct Costs	<u>\$14,923,860</u>	<u>\$14,840,315</u>	-	<u>424,229</u>	A, B
Sub-Total: Services Under Program and Project Officers for Results Tracking	<u>\$41,342,744</u>	<u>\$40,795,749</u>	-	<u>694,736</u>	
Total Costs Incurred	<u>\$ 55,820,088</u>	<u>\$ 55,176,633</u>	-	<u>694,736</u>	5
Fund Balance		\$0.00			6

The accompanying notes to the Fund Accountability Statement are an integral part of this Statement.

Checchi and Company Consulting, Inc.
Notes to the Fund Accountability Statement
For the Period October 9, 2006, through August 27, 2012

Note 1. Basis of Presentation

The accompanying Fund Accountability Statement (the "Statement") includes costs incurred under Contract Task Order Number 306-M-00-07-00502-00 for the Afghanistan Services Under Program and Project Offices for Results Tracking ("SUPPORT") project for the period October 9, 2006, through August 27, 2012. The statement also includes costs incurred under Task Order DFD-I-00-04-00170-00 for the Afghanistan Rule of Law: Informal project for the period March 19, 2010, through September 15, 2011. Because the Statement presents only a selected portion of the operations of Checchi and Company Consulting, Inc. ("Checchi"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of Checchi. The information in this Statement is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contracts. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 48 CFR Subpart 31.2, *Cost Principles for Commercial Organizations*, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were not required.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which Checchi is entitled to receive from the United States Agency for International Development ("USAID") for allowable, eligible costs incurred under the contract during the period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the following final, USAID-approved contract budgets: Afghanistan SUPPORT – Modification No. 16 dated June 11, 2012; and 2) Afghanistan Rule of Law: Informal – Budget approved within the No Cost Extension (NCE) as supplemented by USAID's email dated December 6, 2011.

Note 6. Fund Balance

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

Note 7. Currency

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

Note 8. Interest Payments

\$92 in interest payments were received from the Government due to late payments on the Afghanistan SUPPORT contract. This amount is not reported as revenues on the FAS as it was not earned or otherwise directly tied to allowable costs incurred.

Note 9. Suspended Charges

Throughout the contracts' periods of performance, USAID suspended \$136,662 in costs for task order 306-M-00-07-00502-00. Payment for suspended costs is temporarily withheld pending review of additional documentation by USAID. Upon additional review, \$133,814 was resubmitted and repaid by USAID. The remaining balance of \$2,848 is not reflected within the FAS as Checchi will not be resubmitting the charges for payment.

Note 10. Questioned Costs

Questioned costs are those costs that are questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Questioned costs are presented in the Statement in two categories: unsupported and ineligible costs. Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the allowability and accuracy of costs was not made available. Ineligible costs are those costs that the auditor has determined to be unallowable or inaccurate and recommended for exclusion from the Statement and for a final determination by the USAID Contracting Officer.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the October 9, 2006, through August 27, 2012, period of performance. Management has performed their analysis through October 18, 2013.

Notes to the Questioned Costs Presented on the Fund Accountability Statement¹

Note A. Questioned Costs – Documentation of Cost Reasonableness

Finding 2013-01 identified \$670,151 in procurements that were conducted via sole source methods or for which documentation of competitive procedures were unavailable. As a result, the contractor could not provide documentation showing that costs incurred for the vendors were reasonable. These costs are questioned.

Note B. Equipment and Property Inventories and Reconciliations to the Financial Records

Finding 2013-02 questions \$24,585 – the value of equipment and property identified as having been purchased and used on the project, but that could not be reconciled to the financial and billing records by the contractor.

¹ Notes to the Questioned Costs Presented on the Fund Accountability Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management of Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, D.C. 20036-3812

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the fund accountability statement and related notes of Checchi and Company Consulting, Inc. ("Checchi"), with respect to the Afghanistan Rule of Law: Informal and Services Under Program and Project Offices for Results Tracking projects for the period October 9, 2006, through August 27, 2012, and have issued our report thereon dated October 18, 2013.

Internal Control over Financial Reporting

Checchi's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the task order; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of presentation described in Note 1 to the Fund Accountability Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Fund Accountability Statement for the period October 9, 2006, through August 27, 2012, we considered Checchi's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of Checchi's internal control. Accordingly, we do not express an opinion on the effectiveness of Checchi's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies noted in Findings 2013-02, and 2013-05 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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. We consider the deficiencies noted in Findings 2013-01, 2013-04, 2013-06, 2013-07, and 2013-08 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We noted certain matters that we reported to Checchi's management in a separate letter dated October 18, 2013.

Checchi's Response to Findings


Checchi's responses to the findings identified in our audit are attached as Appendix A to this report. We did not audit Checchi's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Restriction on Use

This report is intended for the information of Checchi and Company Consulting, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.


Crowe Horwath LLP

October 18, 2013
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of Checchi and Company Consulting, Inc.
1899 L Street NW, Suite 800
Washington, D.C. 20036-3812

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the fund accountability statement and related notes of Checchi and Company Consulting, Inc. ("Checchi"), with respect to the Afghanistan Rule of Law: Informal and Services Under Program and Project Offices for Results Tracking projects for the period October 9, 2006, through August 27, 2012, and have issued our report thereon dated October 18, 2013.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract task orders are the responsibility of the management of Checchi and Company Consulting, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund Accountability Statement are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2013-01, 2013-02, 2013-03, 2013-05, 2013-06, and 2013-09 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we reported to Checchi's management in a separate letter dated October 18, 2013.

Checchi's Response to Findings


Checchi's responses to the findings identified in our audit are attached as Appendix A to this report. We did not audit Checchi's responses and, accordingly, we express no opinion on them.

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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Checchi and Company Consulting, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.


Crowe Horwath LLP

October 18, 2013
Washington, D.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2013-01: Procurement: Method to Ensure and Documentation of Cost Reasonableness

Significant Deficiency and Non-Compliance

Criteria: Checchi's Procurement Policy requires that, for purchases exceeding \$3,001, a minimum of three quotes/proposals shall be solicited and written determination of price reasonableness shall be documented in a Small Purchase Pricing Memorandum.

Pursuant to 48 CFR Subpart 31.201-2(a) and 31.201-3, a cost is allowable only when the cost complies with certain requirements, including reasonableness. The burden of proof shall be upon the contractor to establish that such cost is reasonable. What is reasonable depends upon a variety of considerations and circumstances, including any significant deviations from the contractor's established practices.

Condition: Checchi conducted procurements under the SUPPORT project through a combination of sole source and competitive procedures. In nine instances, procurements were conducted via sole source methods or competitive procedures were conducted, but adequate documentation of those procedures was not retained. In the absence of supporting procurement documentation, cost-price analyses, and/or evidence of competitive procedures, a determination that costs incurred were reasonable could not be made.

The following table summarizes the procurements in question:

Subcontractor	Subcontract type	Purpose	Award Amount
Hart Security Limited	Time and Materials	Security Services	\$270,507
Pearl Horizon	Firm Fixed Price	Survey Research	\$44,640
Lhassa/ Altai	Firm Fixed Price	Value Chain Survey	\$141,800
Atos Consulting	Firm Fixed Price	Conference facilitation	\$25,754
Rosenstock Legal Services	Firm Fixed Price	Advisory Services	\$21,375
John Mellor Associates	Firm Fixed Price	Advisory Services	\$11,176
Social Development and Legal Rights	Firm Fixed Price	RUF COD survey	\$39,813
Social Development and Legal Rights	Firm Fixed Price	ACAP survey	\$94,845
Social Development and Legal Rights	Firm Fixed Price	AFSA- CNSA survey	\$20,241
TOTAL:			\$670,151

The auditor noted that Checchi received Contracting Officer approval of the subcontracts; however, the Contracting Officer approvals of the subcontracts did not also reference an approval with regard to allowability or the reasonableness of costs. Checchi also provided selection memoranda and additional documentation comparing the vendors' costs to other similar work for Hart Security Limited, Pearl Horizon, Atos Consulting, and Rosenstock Legal Services. Upon review, the auditor could not conclude that:

- The scope of work and quantity of positions and staff used by vendors in the two circumstances were the same (Hart Security);
- Checchi's established procedures were followed as less than three bids were retained in the procurement file resulting in the selection of Pearl Horizon;
- That the vendor's costs were reasonable as compared to the market of legal service providers (Rosenstock); and
- That the comparisons of market rates were performed at the time of the service and the rates used in the comparisons were for the same work product inclusive of any discounts (Atos).

(Continued)

Questioned costs: \$670,151

Effect: USAID may have reimbursed Checchi for costs that were greater than those necessary for the services rendered thus reducing funds available for other project-related activities.

Cause: According to Checchi personnel, the timeframes within which Checchi could complete the procurements and begin work were short to an extent that Checchi considered the use of competitive procedures to be prohibitive. In addition, Checchi does not always document cost reasonableness analyses and pricing comparisons.

Recommendation: Checchi should return the \$670,151 associated with the questioned costs to the Government or conduct a market analysis or evaluation of other documentation available to show that costs incurred were reasonable. The market analysis or evaluation should relate to procurements for Afghanistan-related work and be associated with similar timeframes and services. This information should be provided to USAID so that a final determination regarding the reasonableness of the aforementioned costs can be made.

Going forward, Checchi should implement procedures that require reasonableness of cost evaluations for Federally-funded procurements. The procedure should ensure that a minimum of three quotes, bids, or proposals are obtained from prospective vendors consistent with Checchi's procurement policy manual.

(Continued)

Finding 2013-02: Equipment and Property Management: Inventories and Reconciliations to Financial Records

Material Weakness and Non-Compliance

Criteria: Per 48 CFR Subpart 31.201-2(d), Checchi is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles.

Condition: Checchi established a procedure requiring the Senior Administrative Officer and Afghan Staff on the Informal project and the Facilities Manager on the SUPPORT project to conduct periodic physical inventories. The inventories were to be reviewed by the Chief of Party or the Deputy Chief of Party. Documentation could not be provided by Checchi showing that the inventories were reviewed. Thus, it could not be determined that the required reviews for accuracy and completeness of inventories were being conducted and that any discrepancies were identified and addressed.

Through a review of inventories provided by Checchi, certain data elements were identified as missing, duplicated, or included in error. These elements include reference to the title holder of equipment and property purchased with USAID monies for the Informal contract being USAID as opposed to the cooperating country as required by the contract, missing locations for three vehicles funded by the SUPPORT project, serial and unique identification numbers located in the inventory that were not observed on the equipment and property during physical inspections, large assets (e.g. generators) without serial numbers noted in the inventories, and duplicate property entries in the SUPPORT contract inventories.

Checchi's final inventory for the SUPPORT project indicated that \$83,867 in property was purchased per review of the master property listing as of August 2012. The same inventory reported that \$306,253 in property with purchase prices greater than \$500 was acquired. With regard to the difference and issues identified with the inventory, Checchi indicated that there were duplicate items in the inventory that were undetected during the review process; an explanation was not provided explaining why the master listing included less items purchased than the subsidiary listing. A reconciliation of the property and equipment purchased per the inventory to the financial records underlying the amounts billed to USAID was requested so as to determine whether the inventory errors resulted in duplicate charges or had a financial impact on the program. Per review of the reconciliation, \$24,585 in equipment and property purchases was not reconciled to the financial records or supporting receipts.

Questioned costs: \$24,585

Effect: USAID may have been charged multiple times for the same piece of equipment or property or Checchi may have overcharged USAID as a result of the discrepancies in property records. Further, equipment and property items may have been removed without Checchi's knowledge due to the errors in inventories limiting their usefulness and ability to be relied upon.

Cause: Checchi stated that the Company did not require written documentation to be retained showing that the inventories were reviewed. Checchi asserted that the reviews were conducted and results communicated verbally. The reviews, however, were ineffective.

As a component of its reviews and procedures, Checchi did not conduct periodic reconciliations between the physical inventories and the financial records, implement other controls to detect errors in inventories, or design controls to identify discrepancies between financial records and inventories. The equipment and property purchases were also not tracked within the financial system at a level of detail adequate to conduct comparisons between financial system records and inventories.

(Continued)

Recommendation: We recommend that Checchi:

- 1) Require the Chief of Party or Deputy Chief of Party to document his or her review of physical inventories through email correspondence or a sign-off on the inventories;
- 2) Conduct periodic reconciliations of inventories to the financial records to help identify and correct errors as they occur;
- 3) Remit payment to USAID in the amount of \$24,585 or provide support for the unreconciled differences noted; and
- 4) Document the process needed to trace equipment and property records to financial records.

(Continued)

Finding 2013-03: Cash Management: Untimely Payment of Subcontractors

Non-Compliance

Criteria: Per FAR 52.216-7, reimbursable costs consist of those costs that the contractor has paid and those that were incurred, but not necessarily paid, for supplies and services purchased directly for the contract provided that payment will be made in accordance with the terms and conditions of a subcontract or invoice and ordinarily within 30 days of the submission of the contractor's request for payment submitted to the Government. Per Checchi's contract with Vendor A, payment is due to the vendor within five business days following Checchi's receipt of reimbursement.

Condition: Checchi requested and obtained reimbursement for two subcontractors' charges, but did not pay the subcontractors within the timeframes allowed by the vendors' contracts and applicable Federal regulations. The associated payments are referenced below.

Vendor	Charge Amount	Date Checchi Reimbursed by USAID	Date Payment Request Submitted	Date Subcontractor Paid	Days Late	Associated Interest
A	\$342,402	March 20, 2008	February 20, 2008	April 10, 2008	5 days	\$177
B	\$48,462	September 23, 2011	September 9, 2011	November 7, 2011	29 days	\$2
TOTAL:						\$179

Questioned costs: None. Interest lost by the Government due to the advancing of funds was \$179, based on application of the Cash Management Improvement Act daily interest rates published by the U.S. Department of the Treasury for fiscal years 2008 and 2012.

Effect: The Government advanced funds to Checchi due to costs not being reimbursable at the time funds were transferred to Checchi. The advancing of funds resulted in the Government being unable to use the funds for other purposes and to earn interest on those funds through the Treasury.

Cause: Due to human error, the vendor invoices were not paid on-time.

Recommendation: We recommend that Checchi implement a procedure that includes conducting reviews of non-labor charges prior to submission of reimbursement requests to the Government to ensure that only those costs already paid or that are scheduled to be paid in accordance with the terms and conditions of the associated contracts are included in reimbursement requests. We further recommend that Checchi either remit the \$179 in interest to the U.S. Government or demonstrate why interest is not owed to the Government.

Finding 2013-04: Internal Controls: Adherence to Transaction Authority Policy

Significant Deficiency

Criteria: Checchi's procurement policy manual specifies a Transaction Authority requirement stating that, for contracts, purchases, and awards greater than \$25,000, the award instrument be approved by a supervisor, reviewed and initialed by the Finance Manager and Chief of Party, and signed by a Checchi Officer.

Condition: Of eighteen procurements tested, fifteen did not contain the required approval, initialing, and signatures. In each case, Checchi's Vice President served as the sole individual with a documented review and approval.

Questioned costs: None

Effect: Failure to follow the contract review and approval process may result in vendors being selected following improper procurement procedures, increases the likelihood that errors in contracts or procurement processes will be undetected, and enhances the possibility that conflicts of interest may go undetected.

Cause: Checchi's project staff does not consider the procurement policy manual to be applicable to purchases conducted in the home office and, therefore, believed that it was acceptable if only the Vice President signed and approved the contracts.

Recommendation: Checchi should follow the procedures that are prescribed in the procurement policies. Documentation of the review and initialing from the appropriate levels of management should be retained. We further recommend that Checchi's Board of Directors consider implementing internal control monitoring procedures on a periodic basis to maintain ongoing visibility to management's implementation of the internal controls, as designed.

(Continued)

Finding 2013-05: Procurement: Notifications to the Office of Small and Disadvantaged Business Utilization

Material Weakness and Non-Compliance

Criteria: Per AIDAR 752.219-8, the Office of Small and Disadvantaged Business Utilization (OSDBU) must be notified when Checchi executes a procurement activity that is above the simplified acquisition threshold (\$100,000).

Condition: There were seven out of fifteen contracts reviewed that exceeded the simplified acquisition threshold and, therefore, met the notification to OSDBU requirement. The following procurements required notification to be made to the OSDBU:

Subcontractor	Purpose	Award Amount
Watan Risk Management	Security Services	\$199,440
Hart Security Limited	Security Services	\$500,141
Lhasa/Altai	Value Chain Survey	\$141,800
John Mellor Associates	Advisory Services	\$171,277
Social Development and Legal Rights	Roads 1 Survey	\$322,906
Social Development and Legal Rights	Roads 2 Survey	\$225,451
Social Development and Legal Rights	Electrical Survey	\$216,448
TOTAL:		\$1,777,463

Questioned costs: None

Effect: Small and disadvantaged businesses that could have assisted with work conducted on the contract were potentially not afforded an opportunity to compete.

Cause: Checchi did not consider the notification requirement to apply to its procurements for the following reasons:

- 1) For the security service contracts, Checchi stated that all security service providers are required to be licensed in Afghanistan, of which only a few are U.S. companies, and none of which are small/disadvantaged businesses;
- 2) For the survey subcontracts, these were considered, by Checchi, to be local procurements, so no notification was given to OSDBU; and
- 3) In the case of the contract with John Mellor Associates, Checchi was provided with two weeks to negotiate the subcontract whereas the OSDBU notification must be submitted at least 45 days in advance.

Recommendation: Checchi should modify its procedures to incorporate a step that results in Checchi notifying the Office of Small and Disadvantaged Business Utilization each time a procurement activity occurs that is expected to exceed the simplified excess acquisition threshold. This notification should also be documented within the procurement file of each vendor. In instances where a notification is not feasible, documentation should be retained within the procurement file clearly indicating why a notification was not considered necessary.

(Continued)

Finding 2013-06: Equipment and Property Management: Property Disposition and Transfer

Significant Deficiency and Non-Compliance

Criteria: Per Section I. 4, "Title to and Care of Property" of the task order, "Title to all non-expendable property purchased with contract funds under [the] contract and used in the Cooperating Country shall at all times be held in the name of the Cooperating Government [unless otherwise designated for or] reserved to USAID under the provisions set forth in the schedule of [the] contract; but all such property shall be under the custody and control of Contractor until the owner of title directs otherwise, or completion of work under this contract or its termination, at which time custody and control shall be turned over to the owner of title or disposed of in accordance with its instructions."

In addition, Checchi's internal procedures restrict the transfer of property from a specified contract without the prior approval of the Contracting Officer/Contracting Officer Representative.

Condition: Checchi transferred property purchased under the Afghanistan Rule of Law: Informal contract task order to a new project without obtaining the prior written approval of the cooperating country, the Contracting Officer Representative, or the Contracting Officer.

Questioned costs: None

Effect: The Government of the Islamic Republic of Afghanistan (GIROA) was prevented from making use of the property to which it has title.

Cause: Checchi considered the use of the property on a follow-on contract being performed in Afghanistan to be appropriate and permissible and communicated that assumption to USAID within the budget for the follow-on contract. In the absence of an objection from USAID, Checchi proceeded with the transfer.

Recommendation: We recommend that Checchi provide the original, closing inventory of property for the Informal project to GIROA, the Contracting Officer Representative, and the Contracting Officer, as appropriate, and obtain either GIROA's written direction regarding the preferred disposition method or a written waiver from USAID indicating that the property may be disposed of through a means other than that required by the task order. Property should then be transferred or used accordingly. For any items that the GIROA requests and that has been destroyed or otherwise damaged to a point beyond use, payment should be remitted to GIROA equal to the value at the time of contract closure.

(Continued)

Finding 2013-07: Conduct of Background Checks and EPLS Searches

Significant Deficiency

Criteria: Pursuant to U.S. Executive Orders, transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism are prohibited. In addition, Checchi's procurement policy manual requires that procedures be conducted to ensure that vendors/subcontractors are not listed on the Excluded Parties List System (EPLS).

Condition: Checchi could not provide documentation showing that background checks and EPLS checks were performed for any of the eighteen vendors in the procurement sample.

Questioned costs: None.

Effect: The likelihood that organizations and vendors prohibited from receiving Federal funds obtained payments from Checchi was elevated.

Cause: Checchi management did not require evidence of EPLS checks to be retained. In addition, background checks were performed in the field and the only communication that was sometimes received from the field were emails saying that the check had been completed.

Recommendation: Checchi should develop policies and procedures requiring its field managers to retain documentation that shows suspension and debarment and suspected terrorist association checks were conducted through a medium determined by management, such as the System for Award Management.

Finding 2013-08: Documentation of Internal Control Activities

Significant Deficiency

Criteria: Checchi is responsible for maintaining a system of internal control adequate to ensure compliance with Federal rules and regulations. Pursuant to the contract task orders, Checchi is required to submit periodic financial and performance reports and obtain reimbursement from the Government through submission of payment requests.

Condition: Checchi established certain procedures to help ensure that the organization remained in compliance with Federal rules, laws, and regulations, and the terms and conditions of its contracts. The procedures included review by the Vice President – Finance of reimbursement requests and review and approval of quarterly financial and quarterly activity reports by the home office. During testing of fifteen reports, evidence of review was unavailable for fourteen of the sampled items. Evidence of review was unavailable for all twenty-two reimbursement requests that were selected as a component of the cash management sample. Thus, one cannot conclude that the internal controls were implemented as designed.

Questioned costs: None

Effect: The likelihood of errors and omissions in payment requests and reports submitted to USAID and noncompliance with contractual requirements and applicable regulations is increased.

Cause: Written documentation of reviews and control activities is not required within Checchi's procedures.

Recommendation: We recommend that Checchi modify existing policies and procedures to require that Checchi's Vice President for Finance document his review and approval of the SF 1034 reimbursement requests prior to submission to USAID. We further recommend that the home office implement a procedure by which reports are approved either physically or electronically and documentation of the approvals is retained.

Finding 2013-09: Reporting

Non-Compliance

Criteria: Pursuant to Section A.4 of Checchi's contract with USAID for the SUPPORT project, quarterly activity reports, quarterly financial reports, and a final report are required to be submitted to USAID.

Per the USAID contract with Checchi, the final report for SUPPORT was due on August 27, 2012 and Quarterly Activity Reports were due 2 weeks before the end of each quarter. This deadline for quarterly activity reports was subsequently changed to 21 days after the end of the quarter.

Condition: Checchi did not submit a quarterly financial report or quarterly activity report to USAID for the January 1 - March 31, 2007, reporting period. In addition, one of fifteen reports sampled for the Afghanistan Rule of Law: Informal and SUPPORT projects was submitted after the deadline prescribed by USAID. For a second of the fifteen reports, documentation was not provided showing the date that the reports were submitted. Thus, one cannot determine whether USAID received the reports on-time.

Report	Reporting Period	Submission Deadline	Date Submitted to USAID	Comments
Quarterly Activity Report (SUPPORT)	April 1 - June 30, 2009	July 21, 2009	August 14th, 2009	None
Final Report (SUPPORT)	Full Project	August 27, 2012	Unclear	Documentation of submission was not provided by the auditee.

Questioned costs: None

Effect: USAID may have been unable to fully monitor Checchi's financial progress and performance under the contracts and to fully understand the projects' programmatic impacts.

Cause: Checchi's home office indicated that there was an administrative oversight resulting in the team forgetting to submit the reports. Checchi indicated that the quarterly activity and quarterly financial reports for the January – March 2007 reporting period were not submitted due to Checchi's consolidation of multiple periods' reports into a single submission.

Recommendation: We recommend that Checchi implement a process to track report deadlines and submissions, and that senior management periodically review report submissions to ensure that reports required under Federal contracts are submitted timely.

SECTION 2 – Summary Schedule of Prior Audit, Review, and Assessment Findings

The auditor was not made aware of any prior audits, reviews, or assessments conducted that contained findings or observations directly related to contract task order numbers 306-M-00-07-00502-00 and DFD-I-00-04-00170-00. Thus, there are no such findings or observations to report on herein.

APPENDIX A - Views of Responsible Officials





CHECCHI

October 17, 2013

CHECCHI AND COMPANY CONSULTING, INC.
1899 L Street, NW, Suite 800, Washington, DC 20036
Tel: 202-452-9700 | Fax: 202-466-9070 | www.chechiconsulting.com

Mr. Bert Nuehring, CPA, Partner
Crowe Horwath LLP
1325 G Street NW, Suite 500
Washington, D.C. 20005

Dear Mr. Nuehring,

What follows is the response of Checchi and Company Consulting, Inc. to the findings presented in the draft auditor's report on the fund accountability statement for the Afghanistan Rule of Law: Informal (ARL-I) and Services Under Program and Project Offices for Results Tracking (SUPPORT) projects, which we received on October 4, 2013.

Finding 2013-01: Procurement: Method to Ensure and Documentation of Cost Reasonableness

Checchi does not accept this finding. We do not agree with the auditor's determination that all \$670,151 of the questioned costs should be classified as ineligible, for the following reasons:

1. One of the nine procurements identified in the finding, Pearl Horizon (\$44,640) was in fact a competitive procurement as defined in Checchi's Procurement Policy Manual, which states on page 6 that adequate price competition exists when "(a) at least two responsible offerors respond to the solicitation; (b) the offerors are able to satisfy the requirement; (c) the offerors respond independently; and (d) each offer submitted responds to the expressed requirements of the solicitation." These conditions were satisfied in the case of the Pearl Horizon procurement and copies of both bids were made available to the auditor.
2. There is nothing in the audit finding to support the conclusion that the questioned costs were unallowable or inaccurate, and should be excluded in their entirety. In fact, in each of the remaining eight cases Checchi received a detailed cost proposal and analyzed the cost elements for allowability, accuracy, and reasonableness. All awards received the required USAID approvals and all subcontractors provided the subcontracted services or deliverables and were paid for them in full. The circumstances of all sole source procurements were documented in source selection memoranda that explain and justify the reasons the procurements were not competed. Copies of these memoranda were made available to the auditor.

Checchi can provide additional supporting documentation to USAID so that any further determination regarding the reasonableness of the questioned costs can be made. Going forward, we will institute procedures to ensure that reasonableness of costs evaluations are documented in writing and that all such documentation is retained. It should be noted, however, that Checchi's

procurement policies do not preclude sole source awards under circumstances permitted by FAR 6.302, nor do they preclude competitive awards based on responses from two offerors, provided that at least three offers are solicited.

Finding 2013-02: Equipment and Property Management: Inventories and Reconciliations to Financial Records

Checchi does not accept this finding. Several examples cited by the auditor to illustrate deficiencies in our property management systems are factually incorrect or misleading, while others warrant further explanation.

With respect to the Informal project inventory, the audit finding refers to “serial and unique identification numbers located in the inventory that were not observed on the equipment and property during physical inspections, large assets (e.g. generators) without serial numbers noted in the inventories...” The auditor informed Checchi that its local affiliate could not find the serial numbers for a laptop computer and a large generator. The serial numbers were in fact located on the equipment, and the auditor was given photos of the equipment with the serial numbers clearly visible. The audit finding also states that the inventory included “reference to the title holder of equipment and property purchased with USAID monies for the Informal contract being USAID as opposed to the cooperating country as required by the contract...”. The title holder was incorrectly referenced on the Informal inventory due to a misunderstanding by local staff; subsequent inventories correctly list the cooperating country as the title holder.

With respect to the SUPPORT project inventory, the audit finding suggests that the location of the project’s three vehicles was unknown, whereas it was made clear to the auditor that all project property, including the vehicles, was located at the SUPPORT compound in Kabul and available for physical inspection. The location tab on the inventory sheet was used to indicate the specific office within the compound where an item could be found and was intentionally left blank in the case of the vehicles, which were parked in a common parking lot between offices and not assigned to a specific office as they were pooled for daily use.

There is no discrepancy in the total value of property listed on the August 4, 2012 “master list” and the over \$500 inventory to which the auditors refer. The “master list” only included property with a purchase price of less than \$500, and an analysis of barcode numbers reveals that there is no duplication between property on this list (totaling \$83,867 for items for which individual prices were available) and the over \$500 list (totaling \$211,774 after duplicate entries are removed). While the label “master list” was inappropriate and caused confusion, Checchi was not given the opportunity to explain the difference in the totals noted by the auditor. Moreover, the master listing did not contain fewer items than the separate over \$500 list – there were 615 priced items (with an average price of \$136) on the master list, compared with 72 items on the over \$500 inventory (after adjusting for duplicate entries). We would also note that the duplicate entries were not indicative of a systemic problem; they appeared only on the August 4, 2012 over \$500 inventory and not on prior inventories, including one that was prepared on July 25, 2012.

Checchi does not agree that the \$24,585 in un-reconciled costs should be regarded as unallowable or inaccurate. Checchi was unable to reconcile all items to its financial records because many items with a purchase price of less than \$500 on the master list were part of larger purchases and were not itemized on Checchi invoices. None of the facts and assertions presented

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in the audit finding suggests that Checchi may have overcharged USAID for any purchases or that items were removed from the inventory without Checchi’s knowledge.

We are developing procedures to implement the auditor’s recommendations. We will institute a policy requiring that the Chief of Party or Deputy Chief of Party documents that he/she has reviewed an inventory by signing a physical copy of the inventory that is retained in project files. We will also implement a policy to conduct periodic reconciliations of inventories to financial records and ensure that equipment listed on the inventories can be traced to financial records.

Finding 2013-03: Cash Management: Untimely Payment of Subcontractors

Checchi accepts this finding. We will implement a procedure to conduct reviews of non-labor charges prior to submission of reimbursement requests to the Government to ensure that only those costs already paid or that are scheduled to be paid in accordance with the terms and conditions of the associated contracts are included in reimbursement requests.

Finding 2013-04: Internal Controls: Adherence to Transaction Authority Policy

Checchi accepts this finding. We are modifying our procurement policy manual to incorporate review and approval authorities for contracts, purchases, and awards issued by our home office, and to ensure that the required documentation is retained.

Finding 2013-05: Procurement: Notifications to the Office of Small and Disadvantaged Business Utilization

Checchi does not accept this finding. We believe that the application of AIDAR 752.219-8 and FAR 19.708(a) is settled and does not apply to contracts performed entirely outside the United States (see FAR 19.000(b)). In 2011 the SBA requested that the FAR Council amend FAR 19.000(b) to provide for application of the Act to overseas acquisitions. The Council unanimously rejected SBA's request, upholding the geographical limitation that has been in the FAR since its inception and has existed in prior regulations since at least 1959. This interpretation of FAR 19.000(b) has been most recently confirmed by the GAO in *Latvian Connection General Trading and Construction LLC*, B-408633 (Comp. Gen. Sept. 18, 2013). Further, to suggest that performance includes incidental management oversight from the United States would render FAR 19.000(b) meaningless, as all US Government activity has some incidental management oversight from the United States. The contracts listed by the auditor were all performed entirely outside the United States and thus are not subject to this notification requirement.

Finding 2013-06: Equipment and Property Management: Property Disposition and Transfer

Checchi acknowledges that it did not receive a formal letter from the Contracting Officer authorizing the transfer of equipment from DFD-I-00-04-00170-00 Task Order 4 to DFD-I-00-04-00170-00 Task Order 5. Checchi pursued every available avenue to obtain timely Contracting Officer approval for the transfer of equipment to Task Order 5. The request was first transmitted to USAID along with a demobilization plan on February 2, 2011, and then after an extension for the project was received a second request was sent to USAID on June 27, 2011.

We again stated our intention to transfer the equipment to Task Order 5 in a budget proposal submitted for the review of the Contracting Officer on July 14, 2011. Since our budget was accepted and we received no response to our earlier requests, we continued to use the equipment for the implementation of Task Order 5. The Contracting Officer subsequently approved transferring the equipment obtained under Award No. DFD-I-00-04-00170-00 to Award No. AID-306-C-12-00013 in a letter signed on March 4, 2013.

We did not consider transferring the property from Task Order 4 to the title holder as the auditor suggests since it was accepted practice in Afghanistan that we were to obtain USAID approval before disposition of any property and that other contractors/awardees should have first call on the equipment. This was later confirmed in written notice OAA-IP-2012-022, which states that "The first priority for residual property should be existing prime awardees that need the property to support current USAID programs in the SO."

Finding 2013-07: Conduct of Background Checks and EPLS Searches

Checchi acknowledges that it did not maintain records in its files of background EPLS checks made of vendors and staff during a portion of the period under review. Checchi's system for making checks and filing them has been evolving and current policy is to retain screen shots of all background and EPLS searches in our files as recommended by the auditors.

Finding 2013-08: Documentation of Internal Control Activities

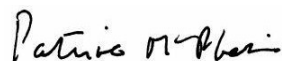
Checchi accepts this finding. We have already implemented the policies and procedures recommended by the auditors and will retain documentation of all approvals.

Finding 2013-09: Reporting

Checchi accepts this finding. We are working to improve our process for tracking report deadlines and submissions and for conducting senior management reviews.

Thank you for the opportunity to respond to your draft report. Please do not hesitate to contact me should you have questions or concerns.

Sincerely,



Patricia McPhelim
Director

Appendix B: Auditor's Rebuttal

Auditor's Rebuttal

Crowe Horwath LLP ("Crowe"), in consideration of the views presented by the management of Checchi and Company Consulting, Inc. ("Checchi" or the "auditee"), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

Finding 2013-01

Crowe reviewed the supporting documentation and procurement policy referenced by management on September 12th and 13th of 2013. Crowe generally disagreed with management's responses to the finding.

First, Crowe notes that – pursuant to Federal cost principles – costs must be reasonable and adequately supported in order to be considered allowable. In the absence of adequate audit evidence that indicates the costs were reasonable, the costs associated with the sole source procurements are questioned.

Second, Crowe noted the following excerpt from the *Procurement Policy Manual* regarding supporting documentation within the "Documentation and Approval Requirements" section of the policy (Page 5):

The following outline of documentation and approval requirements is provided to guide Checchi staff through the procurement process:

Over \$25,000 per transaction:

External Documentation:	At least three quotes/proposals solicited
Internal Justification:	Memorandum of Price Negotiation
Alternative Justification:	Sole Source Justification approved by Chief of Party
Contract Documentation:	Purchase Order (fixed price) or subcontract (cost-reimbursement)
Payment Documentation:	Invoice from vendor, purchase requisition, and receiving report; documentation of acceptance of deliverables for fixed price technical services agreements

Management noted that one of the nine procurements – that pertaining to Pearl Horizon – reflected in the finding was competitively procured. As referenced in the finding, the nine procurements listed were conducted either via sole source methods or competitive procedures, but adequate documentation of the competitive procedures to support the reasonableness of costs was not retained. Thus, Pearl Horizon is appropriately included in the finding.

For the procurement that resulted in the selection of Pearl Horizon, specifically, Checchi provided copies of two price estimates. Using the information provided, a determination that three quotes or proposals were solicited and that the costs estimated by the two vendors were reasonable in comparison to the market.

Pursuant to Federal cost principles, the contractor is required to establish that costs charged to a Federal contract are reasonable. Accordingly, the finding and the corresponding questioned costs were not modified. Crowe does, however, agree that the costs may be considered "unsupported" rather than "ineligible" and has made a corresponding revision to the Fund Accountability Statement to reflect the re-classification.

Finding 2013-02

As noted in Finding 2013-02, Checchi was unable to reconcile the financial records to the SUPPORT project's physical inventory records. \$24,585 in equipment and supply costs reported in the physical inventories was not reconciled by management. Management asserted that the unreconciled amounts should not be classified as unallowable charges, however as noted in the finding criteria, Title 48, Subpart 31.2 of the Code of Federal Regulations, costs must be adequately supported in order to be considered allowable. Furthermore, Checchi's Vice President for Finance noted in a September 6, 2013 submission of the inventory reconciliation to the auditors, that certain costs could not be traced to supporting documentation.

Crowe also disagrees with management's responses regarding the missing data elements in the inventories. The finding does not question the presence of serial numbers or other unique identifiers on the Afghanistan Rule of Law: Informal project equipment as photographs were provided by management prior to the issuance of the report. The finding references the missing data elements for the items listed; see the SUPPORT project inventory dated August 4, 2012, which omits key data elements, including serial numbers for generators with "NA" inserted in their stead and "location" data fields that are unpopulated.

Lastly, Crowe disagrees with management's conclusions regarding the contents of the SUPPORT project's inventory. The "master list" includes one item with a unit purchase price greater than \$500 (see item barcode 4992223) and 1,000 total items. The subsidiary schedules included 614 items with prices listed, 383 items without prices listed, and 130 items in the over \$500 listing (including generators not referenced in the aforementioned subsidiary schedules). Thus, the subsidiary schedules include 1,127 items in comparison to the master list's contents of 1,000 items.

In consideration of these matters, the finding remains as presented.

Finding 2013-05

Crowe disagrees with management's conclusion. The United States Agency for International Development incorporated AIDAR 752.219-8 into the contract with Checchi. The regulation specifically addresses the contractor (i.e., Checchi) as opposed to the contracts issued by Checchi, as asserted by management. The contract referenced by the regulation pertains to Checchi's contract, which was not performed entirely outside of the United States. Checchi conducted project activities within the United States, including financial management and procurement activity, as management indicated. Ergo, the finding remains in the report.

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