

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-94 Financial Audit

**USAID's Afghanistan Social Outreach Program:
Audit of Costs Incurred by AECOM International
Development, Inc.**



**SEPTEMBER
2014**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 5, 2009, the U.S. Agency for International Development (USAID) signed a contract with AECOM International Development, Inc. (AECOM) to establish community councils (*shuras*) at the district level and promote communication and collaboration between the Afghan government and communities. This support to the Afghanistan Social Outreach Program (ASOP) was intended to expand the role of the traditional *shuras*, overcome corruption, and increase participation in the political process by women, youth and other marginalized groups.

SIGAR's financial audit, performed by Kearney & Company (Kearney), reviewed \$34,458,220 in expenditures charged to the ASOP contract from July 5, 2009, through January 31, 2012. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in AECOM's internal controls related to the contract; (2) identify and report on instances of noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AECOM has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AECOM's Special Purpose Financial Statement. See Kearney's report for the precise audit objectives.

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

September 2014

USAID's Afghanistan Social Outreach Program: Audit of Costs Incurred by AECOM International Development, Inc.

SIGAR 14-94-FA

WHAT THE AUDIT FOUND

Kearney & Company P.C. (Kearney) identified one material internal control weakness, two significant deficiencies in internal controls, and two instances of noncompliance with contract terms. Specifically, Kearney found that AECOM International Development, Inc.'s (AECOM) internal processes did not prevent documentation loss or provide for backup records of transactions for the Afghanistan Social Outreach Program. These transactions involved payroll, other direct costs, program costs, subcontracts, travel, and per diem costs. AECOM could not provide sufficient documentation of management reviews and approvals related to subcontracts and other direct costs. It was also not able to provide sufficient documentation of approval for purchase of non-expendable property by the U.S. Agency for International Development (USAID), or provide or retain sufficient documentation related to the disposition of the non-expendable property.

As a result, Kearney identified \$455,084 in unsupported costs (costs not supported by sufficient documentation to allow auditors to determine their accuracy and allowability). Kearney did not find any ineligible costs (costs prohibited by the contract, applicable laws, or regulations).

Category	Questioned Costs Total	Ineligible	Unsupported
Direct Labor	\$213,303	\$0	\$213,303
Travel and Per Diem	\$1,602	\$0	\$1,602
Other Direct Costs	\$239,896	\$0	\$239,896
Program Costs	\$10	\$0	\$10
Sub-Contracts	\$273	\$0	\$273
Total	\$455,084	\$0	\$455,084

In addition, Kearney also identified six findings from a prior audit report that could have a material effect on AECOM's Special Purpose Financial Statement. Because AECOM did not provide any evidence that corrective actions had been taken, Kearney concluded that AECOM has not taken adequate corrective action to address these prior audit findings.

Kearney issued a disclaimer of opinion on AECOM's Special Purpose Financial Statement, meaning that Kearney was prevented from expressing an opinion on the Statement's fair presentation and whether it was free from material misstatement. Specifically, although AECOM signed a representation letter, the letter did not address required representations on which Kearney would rely in rendering an opinion. For example, AECOM did not confirm its responsibility for the system of internal controls related to the preparation and fair presentation of the Statement.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$455,084 in questioned costs identified in the report.
2. Advise AECOM to address the report's three internal control findings.
3. Advise AECOM to address the report's two noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 3, 2014

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

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

This letter transmits the results of our audit of costs incurred by AECOM International Development, Inc. (AECOM) under a U.S. Agency for International Development (USAID) contract to provide support for the Afghanistan Social Outreach Program.¹ The audit, performed by Kearney & Company P.C., covered the period July 5, 2009, through January 31, 2012, and expenditures of \$34,458,220. Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. **Determine the allowability of and recover, as appropriate, \$455,084 in questioned costs identified in the report.**
2. **Advise AECOM to address the report's three internal control findings.**
3. **Advise AECOM to address the report's two noncompliance findings.**

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-028)

¹ USAID contract number 306-DFD-I-03-05-00125-00.

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

AECOM International Development, Inc.

*Financial Audits of Costs Incurred under
Contract Number 306-DFD-I-03-05-00125-00
Afghanistan Social Outreach Program
(for the Period July 5, 2009 to January 31, 2012)*

June 2, 2014



*Point of Contact:
David Zavada, Partner
1701 Duke Street, Suite 500
Alexandria, VA 22314
703-931-5600, 703-931-3655 (fax)
dzavada@kearneyco.com*

Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14

TRANSMITTAL LETTER

July 17, 2014

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

To the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) is pleased to submit this Audit Report, as required under Contract Number GS-23F-0092J, Task ID05130083004, for AECOM International Development, Inc. (AECOM). The Audit Report is in regard to AECOM Contract Number 306-DFD-I-03-05-00125-00 for Afghanistan Social Outreach Program (ASOP) for July 5, 2009 to January 31, 2012.

We appreciate the opportunity to provide you with our report. When preparing the report, we considered comments, feedback, and interpretations provided by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), both orally and in writing, throughout the audit Planning, Fieldwork, and Reporting Phases of this engagement.

Thank you for providing us with the opportunity to assist SIGAR and conduct the financial audit of the contract noted above. If any additional information is needed, please do not hesitate to contact me at (703) 931-5600.

Sincerely,



David Zavada, CPA, Partner
Kearney & Company, P.C.

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EXECUTIVE SUMMARY

Background

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) to perform an audit of the Special Purpose Financial Statement (SPFS) of a task order awarded to AECOM International Development, Inc. (AECOM) by the United States Agency for International Development (USAID) for the Afghanistan Social Outreach Program (ASOP), specifically Task Order (Contract) No. 306-DFD-I-03-05-00125-00 (referred to as “task order,” “contract,” and “award” in this report).

Per the task order, USAID contracted AECOM to establish mechanisms for ongoing communication and collaboration between the Afghan government and communities through the creation of community councils at the district level. This program intended to mobilize community support for security and development and communicate needs and concerns to the Afghan government. The objective was to move Afghanistan towards democracy through an expansion of the role of the traditional shuras, overcoming corruption and obstacles to increase the participation of women, youth, and other marginalized groups. This contract came under an Indefinite Quantity Contract for International Decentralization/Local Governance Strengthening Technical Assistance.

The ASOP contract was awarded to AECOM for the period of July 5, 2009 through January 4, 2011. The contract was a fixed daily rate for U.S. Expatriates, Time and Materials contract, with an initial amount of \$5,829,331, covering the base and all option periods. Subsequent modifications increased the funding to \$34,458,220 and extended the period of performance to January 31, 2012.

Objectives, Scope, and Methodology

Objectives

The specific audit objectives of this financial statement audit are to:

- Express an opinion on whether the SPFS for the award presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited, in conformity with the terms of the awards and generally accepted accounting principles or other comprehensive basis of accounting
- Evaluate and obtain a sufficient understanding of the audited entity’s internal control related to the award and assess control risk; and identify and report on significant deficiencies, including material internal control weaknesses
- Perform tests to determine whether the audited entity complied, in all material respects, with the award’s requirements and applicable laws and regulations; and identify and report on instances of material non-compliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred

- 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 SPFS.

Scope

Our audit of the SPFS covered the following USAID contract awarded to AECOM:

- No. 306-DFD-I-03-05-00125-00: ASOP, for the period of July 5, 2009 through January 31, 2012.

Our review of indirect costs was limited to determining whether the indirect rates per the Negotiated Indirect Cost Rate Agreement were properly applied to the direct costs, subsequently reported on the SPFS, correctly calculated, and appropriately charged to the U.S. Government in accordance with the agreement. The scope of our audit does not include procedures to verify the material accuracy of AECOM's indirect cost rates and fixed fee rates. These rates are subject to USAID oversight through an incurred cost audit. Therefore, such information has not been subject to the auditing procedures beyond those designed to test the application of those unaudited rates in the preparation of the SPFS; accordingly, we do not express an opinion or provide any assurance on the rates.

Our audit was conducted for the purpose of forming an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 1. Therefore:

- The Transmittal Letter and the information presented in the Table of Contents, Executive Summary, and Management's Responses to the findings are presented for the purpose of additional analysis and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied during the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it
- The scope of our audit does not include procedures to verify the efficacy of the ASOP program, and accordingly, we do not express an opinion or provide any assurance on it.

As discussed in the Summary of Results below, the scope of our audit was limited as management did not provide the requested written representations. Written representations from management ordinarily confirm representations explicitly or implicitly given to the auditor, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.

Methodology

An audit includes:

- Obtaining an understanding of AECOM's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment

- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the SPFS.

Our audit approach enables us to redefine the audit scope as necessary, and consists of the following four phases:

Planning Phase: Kearney developed an understanding of AECOM and the SPFS by performing the following:

- Analyzing and comparing booked to billed costs
- Reviewing for changes in estimation and allocation methodologies and/or processes
- Reviewing the financial statements and footnotes
- Holding preliminary discussions with AECOM personnel concerning their methods and processes
- Identifying significant costs
- Reviewing indirect rate applications
- Identifying significant sub-contracts.

Kearney also obtained the status of the corrective actions taken based on prior audits for follow-up in subsequent phases.

Internal Control Understanding/Evaluation Phase: Kearney performed procedures to obtain a sufficient understanding of the controls and compliance requirements in place over each of the cost categories to be tested. The results of this phase were considered in determining the nature and extent of procedures to be performed in the Testing Phase.

Testing Phase: This phase consisted of validating transaction populations and applying various sampling techniques, obtaining sufficient appropriate audit evidence that provides reasonable assurance as to whether the SPFS is free of material misstatement, and determining whether costs claimed are allowable, allocable, and reasonable. This phase also consisted of testing costs incurred for compliance with the contract and applicable laws and regulations that could have an impact on the SPFS.

Reporting Phase: In this phase, Kearney provided AECOM's management with an appropriate Management's Representation Letter and performed wrap-up procedures designed to assess and confirm the completion of the audit.

Summary of Results

Opinion

Kearney issued a disclaimer of opinion on the SPFS for ASOP. This disclaimer was a result of AECOM not providing required management representations. AECOM signed a representation letter indicating that it has provided us with all relevant information and is responsible for the contents of the SPFS; however, it did not include other required representations requested upon which we would base our opinion, such as their responsibility for the design, implementation,

and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; that the SPFS was fairly stated in accordance with a comprehensive basis of accounting other than generally accepted accounting principles; and that all transactions have been recorded and are reflected in the financial statements; among others. In the absence of such representations, the scope of our work was not sufficient to enable us to express an opinion on the SPFS. See also the Independent Auditor’s Report section of this document.

Questioned Costs

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations. Unsupported costs are those costs for which AECOM was unable to provide sufficient supporting documentation, including evidence of proper approvals, for Kearney to determine the accuracy and allowability of the costs. Kearney did not identify any ineligible costs. Kearney noted a total of \$455,084 in unsupported costs, which with the exception of Direct Labor are reported at the unburdened amounts, as shown in Table 1 below.

Table 1 – Total Questioned Costs

Cost Category	Questioned Amount (\$)	Schedule of Findings and Responses Reference
Direct Labor	213,303	ASOP NFR 2014-1
Travel and Per Diem	1,602	ASOP NFR 2014-1
ODCs	239, 896	ASOP NFR 2014-1 ASOP NFR 2014-2 ASOP NFR 2014-3 ASOP NFR 2014-4
Program Costs	10	ASOP NFR 2014-1
Sub-Contracts	273	ASOP NFR 2014-2
Total Questioned Costs	455,084	

Internal Control Findings

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, where there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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. *Government Auditing Standards* requires auditors to report only material weaknesses and significant deficiencies in the Report on Internal Control. A summary of reportable internal control findings is as follows:

Kearney reported one material weakness as follows:

1. Inadequate Controls over Document Retention (ASOP NFR 2014-1)

Kearney reported two significant deficiencies as follows:

1. Ineffective Controls over Payments (ASOP NFR 2014-2)
2. Ineffective Review for Insurance Premiums Incurred (ASOP NFR 2014-3)

Compliance Findings

As part of our audit of AECOM's SPFS, we performed tests to determine compliance with provisions of the contract and other laws and regulations that have a direct and material effect on the SPFS. We identified the following instances of non-compliance:

1. Non-Compliance with Contract Clause (ASOP NFR 2014-4)
2. Non-Compliance with Federal Acquisition Regulations (ASOP NFR 2014-5)

Review of Prior Findings and Recommendations

Kearney identified six findings stated in one prior audit report that could have a material effect on the SPFS. Kearney inquired about whether AECOM, as a party to the joint venture audited in the prior audit report, had implemented corrective actions plans (CAPs) to address the findings. AECOM did not provide any related CAPs. Per our review of the prior year report, the joint venture management disagreed with all findings. Kearney noted that management is awaiting a determination from the contracting officer prior to implementing corrective action. Therefore, Kearney concludes that AECOM, as a party to the joint venture, has not taken adequate corrective action to address the prior audit findings, which could have a material effect on the SPFS. Further, during the course of our audit, Kearney identified one prior audit finding as a repeat finding, which we reported in ASOP NFR 2014-3. See Appendix A of this report for a summary of the prior audit findings and the status of each.

Summary of AECOM's Response to Findings

AECOM provided responses to the findings in the Schedule of Findings and Responses under the Management Response header of each finding. These responses were provided directly by AECOM management and have not been altered or updated in any way by Kearney. Kearney's evaluation of AECOM's responses immediately follows each response.

SPECIAL PURPOSE FINANCIAL STATEMENT

AECOM International Development, Inc. Special Purpose Financial Statement for Costs Incurred under ASOP Contract No. 306-DFD-I-03-05-00125-00 For the period of July 5, 2009 through January 31, 2012				Auditor's Questioned Costs Note A		
	Budget (\$) (Audited)	Actual (\$) (Audited)	Notes (Audited)	Ineligible (\$)	Unsupported (\$)	Auditor's Notes
Amounts paid by the U.S. Government		34,458,220		0	0	
Costs Incurred by Budget Category:			5			
Direct Labor	10,588,707	10,670,957		0	213,303	B
Travel and Per Diem	1,055,084	1,068,997		0	1,602	C
Allowances	663,327	669,683		0	0	
Other Direct Costs	14,778,311	14,730,415		0	239,896	D
Program Costs	880,469	973,195		0	10	E
Subcontracts	3,682,788	3,423,785		0	273	F
General & Administrative	2,809,534	2,921,188		0	0	
Total Costs Incurred	34,458,220	34,458,220		0	455,084	
Amounts Paid by the U. S. Government over/(under) lesser of costs incurred and fees or project budget		0		(0)	(455,084)	
The accompanying notes are an integral part of this financial statement.						

AECOM International Development, Inc.
Management's Notes to the Special Purpose Financial Statement
(Audited)

Note 1. Basis of Presentation

The Special Purpose Financial Statement (the "Statement") includes revenue and costs incurred under contract number 306-DFD-I-03-05-00125-00 with the United States Agency for International Development (USAID) Afghanistan Social Outreach Program (ASOP) for the period from July 5, 2009 to January 31, 2012. ASOP is a mechanism established to work closely with the Independent Directorate of Local Governance to strengthen communication and collaboration between the government and communities, laying a base for permanent democratic authorities and capacities at the sub-national level. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction. Therefore, some amounts presented in this Statement may differ from amounts presented in the basic financial statements.

Note 2. Basis of Accounting

The Statement reflects the revenues received and expenses incurred under the contract. It has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Note 3. Currency Used

All amounts presented are shown in United States Dollars (USD).

Note 4. Foreign Currency Conversion Method

Expenses are translated into USD at the weighted average monthly rate which is calculated based on monthly transfers from the USD bank account to the local currency bank account. Currency fluctuations between monthly rates are not included as an expense to the project.

Note 5. Costs Incurred by Budget Category

The budget line items referenced on the Statement are shown against the latest amendment of the contract budget per Modification number 12 as of October 26, 2011. Incurred and billed costs to USAID are shown as of Bill No. 33 dated February 9, 2012. AECOM invoices used the Negotiated Indirect Cost Rate Agreement (NICRA) rates based on the provisional rates approved at that time period. As of May 2014, AECOM has not received final NICRA rates for the years of the project in question to enable us to submit our final invoice. The contractor was obligated not to exceed the total amount of the contract and was not required to seek approvals for each budget category.

Note 6. Program Status

The project is closed.

Auditor's Notes to the Questioned Costs

In addition to the Notes to the Special Purpose Financial Statement presented above associated with the Afghanistan Social Outreach Program (ASOP) Special Purpose Financial Statement (SPFS), which are the responsibility of AECOM International Development, Inc.'s (AECOM) management and identified with numerical notations, Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) has included the following alphabetical notations to facilitate understanding.

Note A. Questioned Costs

Questioned costs are those costs that are questioned by the auditor because of an audit finding potentially related to:

- 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
- Where, at the time of the audit, the costs are not supported by adequate documentation
- Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs identified by the auditor are presented in the SPFS in two categories— unsupported and ineligible costs. Unsupported costs are those costs that, after a full review of all documentation provided, the auditor has concluded are inadequately or insufficiently documented to determine the allowability and accuracy of costs. Ineligible costs are those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or not award-related.

Questioned costs are unburdened, with the exception of Direct Labor, as each related line item is unburdened, given the contractor separately reported indirect costs on the General and Administrative line item. Questioned costs associated with Direct Labor are the costs that are billed and reimbursed, including fringe benefits and allowances associated with the labor costs.

The questioned costs reported on the SPFS are the actual dollars questioned as a result of our testing procedures, in United States Dollars, without any application of projections. The questioned costs are based on the results of our fieldwork, which were subject to a scope limitation. These results should be read in conjunction with the Independent's Auditor's Report.

Notes B through F. Explanation of Questioned Costs

Table 2 – Explanation of Questioned Costs

Note	Line Item	Questioned Cost Description	Schedule of Findings and Responses Reference
B	Direct Labor	<ul style="list-style-type: none"> Unsupported costs of \$213,303 due to no supporting documentation provided. 	ASOP NFR 2014-1
C	Travel and Per Diem	<ul style="list-style-type: none"> Unsupported costs of \$1,602 due to a lack of supporting documentation. 	ASOP NFR 2014-1
D	Other Direct Costs	<ul style="list-style-type: none"> Unsupported costs of \$98,773 due to lack of supporting documentation Unsupported costs of \$17,109 due to ineffective payment controls Unsupported costs of \$112,114 due to insufficient support for insurance premiums Unsupported costs of \$11,900 due to non-compliance with a contract clause. 	ASOP NFR 2014-1 ASOP NFR 2014-2 ASOP NFR 2014-3 ASOP NFR 2014-4
E	Program Costs	<ul style="list-style-type: none"> Unsupported costs of \$10 due to a lack of supporting documentation provided. 	ASOP NFR 2014-1
F	Sub-Contracts	<ul style="list-style-type: none"> Unsupported costs of \$273 due to ineffective payment controls. 	ASOP NFR 2014-2

Note G: Auditor’s Note to Management’s Note 2

Per management’s Note 2, the SPFS has been prepared on the accrual basis of accounting, which lends to a basis within generally accepted accounting principles. Based on the engagement letter at the beginning of the audit, AECOM management agreed that they are responsible to ensure “transactions are properly recorded, processed, and summarized to permit the preparation and fair presentation of the [SPFS] in conformity with the selected [Other Comprehensive Basis of Accounting]...” The confirmation of the basis is subject to the limitation of scope as discussed in the Independent Auditor’s Report, as management did not provide the related requested representation.

INDEPENDENT AUDITOR'S REPORT

To the Chief Operating Officer and Director of Finance of AECOM International Development, Inc. and the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) was engaged to audit the Special Purpose Financial Statement (SPFS or financial statement) of AECOM International Development, Inc. (AECOM) for Contract Number 306-DFD-I-03-05-00125-00, Afghanistan Social Outreach Program for the period of July 5, 2009 through January 31, 2012 (herein referred to as the ASOP contract). The SPFS and accompanying footnote disclosures are the responsibility of AECOM's management. Our responsibility is to express an opinion on the SPFS based on our audit.

The accompanying SPFS was prepared for the purpose of complying with financial statement presentation requirements for the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and reporting the amounts paid by the U.S. Government, costs incurred and reimbursed, and resulting amounts paid by the U.S. Government over/(under) the lesser of costs incurred and fees or project budget for the ASOP contract between AECOM and the United States Agency for International Development (USAID), as discussed in Note 1. Further, as described in Note 2 and Auditor's Note G, the SPFS for this contract was prepared using a comprehensive basis of accounting other than generally accepted accounting principles.

AECOM did not provide required management representations upon which we would base our opinion. In the absence of such representations, the scope of our work was not sufficient to enable us to express an opinion on the SPFS.

Because of the significance of the matter described in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Special Purpose Financial Statement.

In accordance with *Government Auditing Standards*, we have also issued reports, dated June 2, 2014, on our consideration of AECOM's internal control over financial reporting (internal control) and on our tests of its compliance with certain provisions of the contract agreement and applicable laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control and compliance with certain provisions of the agreement and applicable laws and regulations, as well as the results of that testing, and not to provide an opinion on internal control 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.

* * * * *



This report is intended for the information of AECOM, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 United States Code 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
June 2, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chief Operating Officer and Director of Finance of AECOM International Development, Inc. and the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) was engaged to audit the Special Purpose Financial Statement (SPFS or financial statement) of AECOM International Development, Inc. (AECOM) for Contract Number 306-DFD-I-03-05-00125-00, Afghanistan Social Outreach Program for the period of July 5, 2009 through January 31, 2012 (herein referred to as the ASOP contract) and have issued our Independent Auditor's Report dated June 2, 2014. Our report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the SPFS for the period.

AECOM's management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments made 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 AECOM's 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 AECOM management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the SPFS in conformity with the basis of accounting described in Note 2 to the SPFS. Because of inherent limitations in internal control, errors or fraud may nonetheless 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 due to changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our work, Kearney considered AECOM's internal control over financial reporting (internal control) by obtaining an understanding of the design effectiveness of AECOM's internal controls, determining whether controls had been placed in operation, assessing the control risk, and performing tests of AECOM's controls as a basis for designing our auditing procedures for the purpose of expressing an opinion on the SPFS, and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of AECOM'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 significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

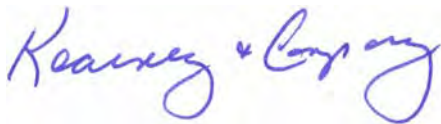
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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 one deficiency described in the accompanying Schedule of Findings and Responses (ASOP NFR 2014-1), to be a material weakness.

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 two deficiencies described in the Schedule of Findings and Responses (ASOP NFR 2014-2 and ASOP NFR 2014-3) to be significant deficiencies.

Additionally, AECOM's management has given its response to the findings presented in our report. We did not audit AECOM's response to the findings, and accordingly, we do not express an opinion on it.

* * * * *

This report is intended solely for the information and use of AECOM, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 United States Code 1905 should be considered before any information is released to the public.



Alexandria, Virginia
June 2, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Chief Operating Officer and Director of Finance of AECOM International Development, Inc. and the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) was engaged to audit the Special Purpose Financial Statement (SPFS or financial statement) of AECOM International Development, Inc. (AECOM) for Contract Number 306-DFD-I-03-05-00125-00, Afghanistan Social Outreach Program for the period of July 5, 2009 through January 31, 2012, (herein referred to as the ASOP contract) and have issued our Independent Auditor's Report dated June 2, 2014. Our report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the SPFS for the period.

AECOM's management is responsible for compliance with agreement terms and applicable laws and regulations.

As part of our procedures, we performed tests of AECOM's compliance with certain provisions of agreement terms, and applicable 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.

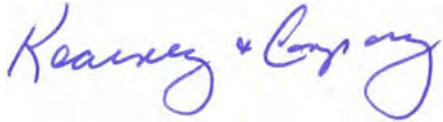
The results of our tests of compliance with certain provisions of agreement terms and applicable laws and regulations disclosed two instances of non-compliance, described in the accompanying Schedule of Findings and Responses (ASOP NFR 2014-4 and ASOP NFR 2014-5) that are required to be reported under *Government Auditing Standards*.

Auditors must plan and perform the audit to obtain sufficient appropriate audit evidence for obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). The results of our tests of compliance with certain provisions of agreement terms, and applicable laws and regulations did not disclose any instances of fraud or abuse. However, our objective was not to provide an opinion on instances of fraud. Accordingly, we do not express such an opinion.

Additionally, AECOM's management has given its response to the findings presented in our report. We did not audit AECOM's response to the findings, and accordingly, we do not express an opinion on it.

* * * * *

This report is intended solely for the information and use of AECOM, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 United States Code 1905 should be considered before any information is released to the public.



Alexandria, Virginia
June 2, 2014

SCHEDULE OF FINDINGS AND RESPONSES

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) noted five individual findings that, in the aggregate, resulted in one material weakness, two significant deficiencies, and two instances of non-compliance. These reportable matters are inclusive of all questioned costs reported.

Material Weakness

ASOP NFR 2014-1: Inadequate Controls in Place to Prevent Documentation Loss

Condition: Inadequate AECOM International Development, Inc. (AECOM) internal processes did not prevent documentation loss or provide for back-up records related to the Afghanistan Social Outreach Program (ASOP) transactions occurring between July 5, 2009 and January 31, 2012 resulting in unsupported costs in the unburdened amount of \$313,688 (\$327,742 burdened) and a material weakness, which are described in further detail below. The dollar values reported in this finding are whole United States Dollars (USD), and the fully burdened amounts are calculated using the rates per AECOM’s Negotiated Indirect Cost Rate Agreement (NICRA) and other relevant fees to the contract.

Relevant supporting documentation pertaining to Payroll, Other Direct Costs (ODCs), Program Costs, and Travel and Per Diem was not provided in the following instances:

- **Direct Labor:** For the entire month of December 2010 local labor payroll, no documentation was provided due to a building collapse damaging all relevant documentation. Due to the entire month of December 2010 having all relevant documentation destroyed, the entire month is considered unsupported in the amount of \$213,303 (Note: The payroll transactions tested were already fully burdened with agreed upon rates between AECOM and the United States Agency for International Development [USAID]; therefore, an unburdened amount is not provided)
- **ODCs:** For a total of 16 instances, no documentation was provided due to a building collapse or subsequent misfiling of documentation. These instances resulted in unsupported costs in the burdened amount of \$112,601. The unburdened costs associated with these instances are \$98,773
- **ODCs:** For one instance, proper approval documentation was not provided because the signed voucher could not be located due to a building collapse. This instance did not result in unsupported costs as a copy of the invoice was provided
- **Program Costs:** For one instance, no documentation was provided due to a building collapse damaging all relevant documentation. This instance resulted in burdened unsupported costs of \$11. The unburdened costs associated with this instance are \$10
- **Travel and Per Diem:** For nine instances, no documentation was provided due to a building collapse damaging all relevant documentation. These instances resulted in burdened unsupported costs of \$1,818. The unburdened costs associated with these instances are \$1,594

- **Travel and Per Diem:** For one instance, sufficient documentation was unable to be provided due to the misfiling of documentation. A voucher edit report was provided; however, it was insufficient to conclude on the transaction and the original voucher or other supporting documentation could not be provided. This instance resulted in burdened unsupported costs of \$9. The unburdened costs associated with this instance are \$8.

Cause: AECOM contracted with a company to store archived hard-copy documentation and the contractor facility's roof collapsed, destroying original hard-copy support. In the course of the contractor relocating the documentation that was not destroyed, they misfiled some documentation. At the time of this contract, AECOM did not have adequate processes in place to ensure documentation was otherwise maintained in the event that the original hard copy documentation was destroyed or misplaced.

Criteria: Per Federal Acquisition Regulations (FAR), Subpart 31.2, *Contracts With Commercial Organizations*, Section 31.201-2 (d), "Determining Allowability":

"A contractor 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 in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Effect: The conditions noted above resulted in questioned costs that may be determined to be unallowable by the contracting officer. There is an increased likelihood that other costs incurred are unsupported because relevant documentation was not provided or available. Loss of records disrupts the funding agency's oversight and audit process.

Recommendation #1: Kearney recommends that AECOM either provide supporting documentation to the contracting officer or return the questioned amount of \$313,688 (\$327,742 burdened) based on lack of supporting documentation.

Kearney notes that since the period of this contract, it became AECOM policy to digitize all supporting documentation in addition to any original hard-copy files retained and archived off-site. As such, Kearney offers no additional recommendation related to the control weakness that was present during the period under audit, as digitizing records to be stored separately from original hard-copies should prevent this weakness from recurring in future awards.

Management's Response:

During the implementation of the ASOP contract, AECOM policy required the original copies of all financial documents to be sent to the Home Office and for a copy to be retained in the Field Office. However, once a project is complete, AECOM requires that the copies retained in the Field Office be destroyed in order to avoid duplication and additional charges to the U.S. government. Upon project completion, AECOM then sends all documentation to the renowned document storage facility Recall for storage. Unfortunately, Recall suffered a documented

building collapse which resulted in the loss of certain project files; this was beyond the control of AECOM. However, since the end of the ASOP contract, AECOM has implemented its proprietary One Source system for all projects which retains electronic copies of documents and will protect documentation in the case of a storage collapse.

Auditor's Evaluation of Management's Response:

Kearney understands that the building collapse was beyond the control of AECOM. However, AECOM was responsible for ensuring that reimbursed costs are supported. As AECOM does not appear to disagree with the condition, Kearney reaffirms that the finding remains unchanged.

*Significant Deficiencies***ASOP NFR 2014-2: Ineffective Controls over Payments**

Condition: Inadequate AECOM internal processes over ASOP transactions occurring between July 5, 2009 and January 31, 2012 resulted in a significant deficiency and total unburdened unsupported costs of \$17,382 (\$19,817 burdened), which are described in further detail below. The dollar values reported in this finding are whole USDs and the fully burdened amounts are calculated using the rates per AECOM's NICRA and other relevant fees to the contract.

Relevant supporting documentation pertaining to Sub-contracts and ODCs was not properly reviewed and approved by supervisory AECOM personnel in the following instances:

- **Sub-Contracts:** For one instance, the invoice amount was unable to be re-calculated based on documentation provided. A pro-rated amount was included on the invoice; however, the amount was not mathematically accurate and there was no evidence of review/investigation by AECOM, resulting in burdened unsupported costs of \$185. The unburdened costs associated with this instance are \$162
- **Sub-Contracts:** For another instance, the labor and equipment rates on the invoice did not match the labor and equipment rates per the sub-contract agreement and the invoice was not properly approved, resulting in burdened unsupported costs of \$127. The unburdened costs associated with this instance are \$111
- **ODCs:** For one instance, evidence of receipt of goods was not provided, resulting in unsupported costs of \$16,530. The unburdened costs associated with this instance are \$14,500
- **ODCs:** For another instance, the price per the invoice differed from the amount per the agreement. These costs are related to fuel and while the agreement indicated that the price is subject to change, the agreement also stated that the costs would be re-evaluated every two to three months and there was no evidence provided of this re-evaluation or any evidence of AECOM's investigation into a change in price prior to payment, resulting in burdened unsupported costs of \$2,975. The unburdened costs associated with this instance are \$2,609.

Cause: Controls that were in place for the program official and accounting personnel to review and approve invoices for accuracy, appropriateness, and receipt of goods/services prior to payment did not operate effectively.

Criteria: Per FAR, Subpart 31.2, *Costs with Commercial Organizations*, Section 31.201-2, "Determining Allowability":

"(d) A contractor 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 in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Effect: Potential overstatement of costs based on improper payments. As such, the government could be overcharged.

Recommendation #2: Kearney recommends that AECOM provide the necessary supporting documentation to the contracting officer or return the unsupported amount of \$17,382 (\$19,817 burdened), based on lack of supporting documentation or explanations for the variances identified.

Recommendation #3: Kearney recommends that AECOM ensure that proper reviews and approvals are performed for the program official and accounting personnel to review and approve invoices for accuracy, appropriateness, and receipt of goods/services prior to payment.

Management's Response:

AECOM provided evidence that the ODC goods (10 laptops) in question from Recommendation #2 are included in the AECOM inventory list and the AECOM disposition list, both of which were approved by USAID. These documents should be considered as evidence of receipt of goods. In regards to the ODC fuel charges, it quickly became apparent that fuel costs in Kabul at that time were changing on an almost daily basis. As a result, merchants refused to make long-term contracts which rendered meaningless any reevaluations at two or three month intervals. There was no alternative to purchasing fuel on the local market at the most reasonable possible price on an as needed basis. We did not have adequate facilities for long-term storage of fuel nor would these have complied with our safety standards.

Auditor's Evaluation of Management's Response:

For the first ODC instance in the condition, Kearney acknowledges receipt of inventory and disposition lists containing a total of 50 laptops. However, from a control perspective, we are unable to accept such documentation as adequate evidence of receipt of goods (first ODC instance) because we are unable to determine that the goods were received and added to inventory prior to payment. Further, we are unable to accept the inventory and disposition lists provided for the purposes of determining the appropriateness of the claimed costs because we were unable to uniquely identify the 10 laptops for which the payment occurred from the listing of 50 laptops, thus the questioned costs remain.

For the second ODC instance in the condition relating to fuel changes, Kearney understands the nature of the procurement and that the agreement with the vendor that stated the costs were subject to change with the market. However, the only documentation provided was a contract that had fuel costs that were well below the actual costs incurred, with no additional documentation to support the accuracy of invoices or AECOM's evaluation of fuel prices to support the reasonableness of the costs prior to payment of the invoice. As such, we could not conclude that the costs were accurate and appropriate.

No responses were provided by management for the sub-contracts instances.

Therefore, Kearney reaffirms the finding remains unchanged.

*Significant Deficiencies (cont'd)***ASOP NFR 2014-3: Ineffective Review for Insurance Premiums Incurred (Repeat Finding)**

Condition: AECOM internal processes did not produce or retain sufficient documentation related to insurance premium payments for ASOP transactions occurring between July 5, 2009 and January 31, 2012, resulting in a significant deficiency and unburdened questioned costs totaling \$112,114 (\$127,810 burdened), which are described in further detail below. The dollar values reported in this finding are whole USDs and the fully burdened amounts are calculated using the rates per AECOM's NICRA and other relevant fees to the contract.

For five instances of ODCs, AECOM did not provide sufficient documentation, specifically payroll and personnel records, to support the insurance premium costs incurred for employees associated with the Defense Base Act (DBA) and Accidental Death and Dismemberment (AD&D). In all instances, the insurance policy and invoices were provided.

- In two instances related to DBA insurance, labor supporting schedules and a DBA audit summary performed at the end of each year to adjust estimated costs to actual was provided; however, the labor supporting schedules did not reconcile to the amounts per the DBA audit summary. The labor supporting schedules included all hours charged to the ASOP project by eligible employees and the DBA audit summary adjusted those hours to only include hours that employees were at post and eligible for the DBA insurance. The DBA audit summary did not reasonably explain the hour adjustments and additional support to substantiate the adjusted hours could not be provided. Further the DBA audit summary included a gross miscalculation of the salary amount for one employee that was not detected upon review. This condition resulted in burdened unsupported costs of \$9,030, which is the re-calculated difference resulting from the unsupported hours adjustments. The unburdened costs associated with this instance are \$7,921
- In one instance related to DBA insurance, a DBA remuneration estimate was provided to support the amount posted to the general ledger. The DBA charge was an estimate for the year ahead based on a projection done by the Contract Administrator and the budget; however, support behind the estimation and methodology was not provided, including the calculation of the projection, the budget, or prior year comparisons. This condition resulted in burdened unsupported costs of \$32,962, which is the full sampled amount. The unburdened costs associated with this instance are \$28,914
- In two instances related to AD&D insurance, a spreadsheet was provided showing the number of eligible employees and an estimated annual payroll amount; however, there was not sufficient support provided to validate the number of employees or the methodology for the estimation of the annual payroll amount. In one of these instances, the invoice amount also did not reconcile to the amount recorded in the General Ledger Detail. This condition resulted in burdened unsupported costs of \$85,818, which is the full sampled amount. The unburdened costs associated with this instance are \$75,279.

Cause: Calculations of eligible hours or payroll amounts to derive insurance premium costs were not explained or clearly supported by labor schedules during the course of the adjustment process. Implemented procedures were not designed to retain a full audit trail.

Criteria: Per FAR, Subpart 31.2, *Contracts With Commercial Organizations*, Section 31.201-2 (d) “Determining Allowability”:

“A contractor 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 in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

Effect: Potential misstatement of costs based on improper payments. As such, the government could be overcharged.

Recommendation #4: Kearney recommends that AECOM either provide the necessary supporting documentation to the contracting officer or return the questioned amount of \$112,114 (\$127,810 burdened), based on lack of supporting documentation.

Recommendation #5: Kearney recommends that AECOM ensures that insurance premium cost adjustment calculations are fully explained and supported by clear payroll and personnel records so that accurate management reviews can be conducted over these adjustments. Calculations of eligible hours or payroll amounts to derive insurance premium costs should be clearly supported by labor schedules during the course of the adjustment process to retain a full audit trail of the costs incurred.

Management’s Response:

In regards to the DBA claim, the estimated amount of \$28,000 has been fully credited to the project at the time of audit in October 2012 and scheduled to be refunded to USAID in our final invoice. For the questioned AD&D payment, the calculation for the premium is based on the estimated amount of employees hired by that date. The closest date of actual payroll shows 87 people versus 82 used for the estimation and 338 actual people versus 328 estimated in the other case. The estimation in both cases had less people than the actual, thus there were no overcharges to the U.S. Government. The estimation was very close to the reality because it was based on the estimated staffing plan generated by Project Manager and the Field Office team.

Auditor’s Evaluation of Management’s Response:

To clarify, the audit referenced by AECOM management is related to an internal DBA audit conducted during October 2012 and is not a part of the ASOP SPFS audit conducted by Kearney. Kearney commends AECOM for initializing the credit for the amount of \$28,000 for the DBA claim; however, as the final invoice has not yet been issued to USAID, these costs remain unsupported in our report until the final invoice is issued. Also, this information related to the

credit was not made aware to Kearney during fieldwork. Lastly, the \$28,000 credit estimated by AECOM does not cover our unburdened DBA insurance questioned amount of \$36,835.

For the AD&D unsupported costs, Kearney understands that the estimated costs were lower than the actual, thus resulting in lower costs billed to the government; however, no documentation was provided to support how the estimation was calculated or to support the actual costs incurred. Without this documentation, Kearney is unable to verify the accuracy of either the estimated costs or the actual costs, whether under- or over-reported. Therefore, Kearney reaffirms the finding remains unchanged.

*Non-Compliances***ASOP NFR 2014-4: Non-Compliance with Contract Clause**

Condition: AECOM internal processes did not produce or retain sufficient documentation related to USAID approval for Non-Expendable Property for ASOP transactions occurring between July 5, 2009 and January 31, 2012, resulting in an instance of non-compliance with the contract terms and unburdened questioned costs totaling \$11,900 (\$13,556 burdened), which are described in further detail below. The dollar values reported in this finding are whole USDs, and the fully burdened amount is calculated using the rates per AECOM's NICRA and other relevant fees to the contract.

For one sampled ODC transaction related to purchases of non-expendable property, AECOM did not provide sufficient documentation to evidence that USAID approved the purchase, as required by the contract terms. A procurement plan was submitted to USAID for approval, listing a variety of non-expendable property items to be purchased, and USAID approved that procurement plan; however, one specific piece of property purchased, a server, was not included in the procurement plan. The sampled transaction procured two servers and the approved procurement plan included only one server. Thus, the unit cost of one server is questioned resulting in burdened unsupported costs of \$13,556. The unburdened costs associated with these instances are \$11,900.

Cause: At the time of the procurement plan, not all non-expendable property required for each district may have been known, and subsequent approval was either not performed or not retained in AECOM's records.

Criteria: Per the AECOM Contract, Section H.10b, "Property": "All purchases of nonexpendable property must be approved for purchase by the Contracting Officer."

Per FAR, Subpart 31.2, *Contracts With Commercial Organizations*, Section 31.201-2 (d) "Determining Allowability":

"A contractor 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 in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Effect: Non-compliance with contract terms, which can negatively impact USAID's oversight of the award. Non-compliances may also result in costs that are potentially unallowable.

Recommendation #6: Kearney recommends that AECOM provide the necessary supporting documentation to the contracting officer or return the questioned amount of \$11,900 (\$13,556 burdened), based on lack of approval.

Recommendation #7: Kearney recommends that AECOM ensures that all non-expendable property is approved by USAID, by ensuring that all known property needs are included in the procurement plan, or subsequent approvals are performed and retained as the need for additional property is identified. It is suggested AECOM do this through distribution of a detailed procedural manual and training.

Management's Response:

The servers and the generator were included in the approved realigned budget under modification number 1; therefore, no additional approval was needed.

Auditor's Evaluation of Management's Response:

Kearney has revised the draft condition for which management response applied. Kearney acknowledges receipt from the auditee of the approved realigned budget under modification number 1 to the contract with corresponding detail of individual equipment items to be procured. This documentation was provided after the end of field work but was considered for the final report. However, all support provided showed only one server being approved and our sample included two servers. Therefore, the finding remains as it pertains to one server.

*Non-Compliances (cont'd)***ASOP NFR 2014-5: Non-Compliance with Federal Acquisition Regulations**

Condition: AECOM internal processes did not produce or retain sufficient documentation related to the disposition of non-expendable property for ASOP transactions occurring between July 5, 2009 and January 31, 2012, resulting in one collective instance of non-compliance with a clause of the FAR that was specifically referred to in the contract, and which is described in further detail below.

For one sampled ODC transaction related to non-expendable property costs, AECOM did not maintain documentation with sufficient detail to uniquely identify the non-expendable property selected for testing as being included on the property disposition schedule provided to USAID. A property disposition schedule was provided and USAID had approved the schedule; however, we were unable to identify that two servers procured within one sampled non-expendable property purchase were included. The disposition schedule provided showed the disposition of servers at a unit cost of \$750, and the unit cost of the servers sampled was \$11,900.

Note that this is the same sample of servers as in ASOP NFR 2014-4. Except for as described in ASOP NFR 2014-4, we were otherwise able to determine that the property procurements were appropriate and supported, and thus this finding does not result in questioned costs.

Cause: AECOM's control to maintain an up-to-date property listing of the non-expendable property acquired under the contract was not operating effectively. In these instances, additional non-expendable property was acquired after an initial bulk procurement, and these additions were not properly tracked through disposition.

Criteria: FAR Clause 52-245-1 Government Property (incorporated by reference in contract) states, in part:

“(j) Contractor inventory disposal. Except as otherwise provided for in this contract, the Contractor shall not dispose of Contractor inventory until authorized to do so by the Plant Clearance Officer....”

“(ii) The Contractor shall list, on Standard Form 1428, Inventory Disposal Schedule, property that was not used in the performance of other Government contracts under paragraph (j)(2)(i)(A) of this clause, property that was not purchased under paragraph (j)(2)(i)(B) of this clause, and property that could not be returned to a supplier under paragraph (j)(2)(i)(C) of this clause....”

“(3) Inventory disposal schedules.

“(i) The Contractor shall use Standard Form 1428, Inventory Disposal Schedule, to identify—

(A) Government-furnished property that is no longer required for performance of this contract, provided the terms of another Government contract do not require the Government to furnish that property for performance of this contract;

- (B) Contractor-acquired property, to which the Government has obtained title under paragraph (e) of this clause, which is no longer required for performance of that contract; and
- (C) Termination inventory.
- (ii) The Contractor may annotate inventory disposal schedules to identify property the Contractor wishes to purchase from the Government.
- (iii) Unless the Plant Clearance Officer has agreed otherwise, or the contract requires electronic submission of inventory disposal schedules, the Contractor shall prepare separate inventory disposal schedules for—
- (A) Special test equipment with commercial components;
 - (B) Special test equipment without commercial components;
 - (C) Printing equipment;
 - (D) Information technology (e.g., computers, computer components, peripheral equipment, and related equipment);
 - (E) Precious metals;
 - (F) Nonnuclear hazardous materials or hazardous wastes; or
 - (G) Nuclear materials or nuclear wastes.
- (iv) The Contractor shall describe the property in sufficient detail to permit an understanding of its intended use. Property with the same description, condition code, and reporting location may be grouped in a single line item.
- (4) Submission requirements. The Contractor shall submit inventory disposal schedules to the Plant Clearance Officer no later than—
- (i) 30-days following the Contractor’s determination that a Government property item is no longer required for performance of this contract;
 - (ii) 60 days, or such longer period as may be approved by the Plant Clearance Officer, following completion of contract deliveries or performance; or
 - (iii) 120 days, or such longer period as may be approved by the Termination Contracting Officer following contract termination in whole or in part....”
- “(7) Storage.
- (i) The Contractor shall store the property identified on an inventory disposal schedule pending receipt of disposal instructions. The Government’s failure to furnish disposal instructions within 120 days following acceptance of an inventory disposal schedule may entitle the Contractor to an equitable adjustment for costs incurred to store such property on or after the 121st day.”

Effect: Non-compliance with regulations, which can negatively impact USAID’s oversight of the award. Non-compliances may also result in costs that are potentially unallowable and potential misuse or theft of government property.

Recommendation #8: Kearney recommends that AECOM ensures controls are operating effectively so that non-expendable property listings are up-to-date with all procurements specific to each contract, all non-expendable property is properly disposed of and disposition documentation required to be submitted to USAID is complete. It is suggested AECOM do this through the distribution of a detailed procedural manual and training.

Management's Response:

The mentioned properties are included in the disposition list provided to the audit firm. The 100 KVA generator was mislabeled at the time of inventory entry and AECOM has provided supporting documentation that the generator is indeed the same one. Evidence was also provided of a 5.0 KVA generator questioned, which was included both in the inventory list and the disposition list approved by USAID.

Auditor's Evaluation of Management's Response:

Kearney has revised the draft condition for which management response applied. Kearney acknowledges receipt from the auditee of the revised disposition list with individual equipment items. This documentation was provided after the end of field work but was considered for the final report. However, the disposition schedule provided showed the disposition of servers at a unit cost of \$750, and the unit cost of the servers sampled was \$11,900. Therefore, the finding remains as it pertains to the servers.

APPENDIX A – PRIOR AUDIT FINDINGS AND STATUS

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) identified findings stated in prior audit reports that could have a material effect on the Special Purpose Financial Statement. Kearney then inquired about whether AECOM International Development, Inc. implemented corrective action plans (CAPs) to address the findings and determined the status of the CAPs. Kearney identified the following prior audit report:

Financial Audit of Costs Incurred by Afghan Integrated Support Services under Contract No. W52P1J-11-C-0015

The following represents a summary of the findings related to Afghan Integrated Support Services¹ (AISS), as reported by Mayer Hoffman McCann P.C. in their report, dated August 16, 2013:

No	Previously Reported Findings	Kearney’s Conclusion on Current Status
1	Lease of land in the amount of \$212,504 and subcontract labor in the amount of \$5,139 were incorrectly recorded and claimed as reimbursable costs of the Central Warehouse Facility (CWF).	AISS management disagreed with the finding and as such did not provide corrective action plans. Kearney noted that AISS is awaiting a determination from the contracting officer (CO). Kearney cannot determine the adequacy of nonexistent corrective action plans and as such concludes that adequate corrective action was not yet taken.
2	AISS subcontracted the construction of the CWF to one of its affiliate partners. The subcontract was on a fixed fee basis totaling \$2,361,926. However, the subcontract was not competitively bid and there was no justification provided for awarding the contract on a sole source basis.	AISS management disagreed with the finding and as such did not provide corrective action plans. Kearney noted that AISS is awaiting a determination from the CO. Kearney cannot determine the adequacy of nonexistent corrective action plans and as such concludes that adequate corrective action was not yet taken.
3	13 instances were noted in which adequate supporting documentation was not provided for micro-purchases of spare parts, resulting in unsupported costs of \$17,618.	AISS management disagreed with the finding and as such did not provide corrective action plans. Kearney noted that AISS is awaiting a determination from the CO. Kearney cannot determine the adequacy of nonexistent corrective action plans and as such concludes that adequate corrective action was not yet taken.

¹ Per the audit report referenced, AECOM Government Services, Inc. was a party in the AISS joint venture.

No	Previously Reported Findings	Kearney's Conclusion on Current Status
4	A total of \$272,120 was deemed unsupported based on lack of supporting documentation for the Defense Base Act insurance costs claimed.	AISS management disagreed with the finding and as such did not provide corrective action plans. Kearney noted that AISS is awaiting a determination from the CO. Kearney cannot determine the adequacy of nonexistent corrective action plans and as such concludes that adequate corrective action was not yet taken. Further, based upon our audit procedures, Kearney identified this as a repeat finding. Refer to ASOP NFR 2014-3 in the Schedule of Findings and Responses.
5	The CWF was not built in accordance with the approved floor plan and the original cost proposal. Rather, the CWF was built based on an amended floor plan and revised cost proposal that were never submitted to the Department of Defense for approval.	AISS management disagreed with the finding and as such did not provide corrective action plans. Kearney noted that AISS is awaiting a determination from the CO. Kearney cannot determine the adequacy of nonexistent corrective action plans and as such concludes that adequate corrective action was not yet taken.
6	Spare parts in the warehouse were tagged with a computerized label. However, the identification code used does not identify the source of the spare part, i.e., whether it was purchased under the contract, donated by the U.S. Government, or transferred from the prior contract.	AISS management disagreed with the finding and as such did not provide corrective action plans. Kearney noted that AISS is awaiting a determination from the CO. Kearney cannot determine the adequacy of nonexistent corrective action plans and as such concludes that adequate corrective action was not yet taken.

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- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
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Arlington, VA 22202