

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-13 Financial Audit**

Department of State's Project for  
Architectural and Engineering Design of the  
National Museum in Kabul, Afghanistan:  
Audit of Costs Incurred by Sayed Majidi  
Architecture and Design



NOVEMBER  
2014

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On July 12, 2011, the Department of State (State) awarded a cooperative agreement to Sayed Majidi Architecture and Design (SMAD) in the amount of \$2.79 million. The agreement initially funded project management services for the architectural and engineering design of the new National Museum in Kabul, Afghanistan. Through five modifications that included adding a second project to plan and construct the exterior security upgrades, the value of the award increased to \$6.35 million.

SIGAR's financial audit, performed by Mayer Hoffman McCann, P.C. (MHM), reviewed \$6.35 million in expenditures charged to the cooperative agreement from July 15, 2011 through February 28, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in SMAD's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether SMAD had taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of SMAD's Special Purpose Financial Statement. See MHM's report for the precise audit objectives.

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

November 2014

## Department of State's Project for Architectural and Engineering Design of the National Museum in Kabul, Afghanistan: Audit of Costs Incurred by Sayed Majidi Architecture and Design

### SIGAR 15-13-FA

#### WHAT THE AUDIT FOUND

Mayer Hoffman McCann, P.C. (MHM) identified 10 internal control deficiencies and four instances of noncompliance in its audit of costs incurred by Sayed Majidi Architecture and Design (SMAD). For example, the two SMAD directors received unsupported compensation, which led to questioned costs of \$1.34 million. The project had budgeted \$3.39 million to pay salaries for seven full-time equivalent (FTE) employees. The two directors stated that due to a lack of resources, they had to divide the workload of the seven FTEs between them. Based on MHM's review of a sample of timesheets submitted during the audit period, the hours charged by both directors equated to 3.61 FTEs, or 52 percent of budgeted positions; however, the salaries paid to the two directors totaled \$2.69 million, or 79 percent, of the project's budget for personnel and staff salaries. The additional duties assumed by the directors—which also created a lack of separation of duties—resulted in inadequate internal controls that can raise the appearance or perception of fraud under the agreement.

As a result of these deficiencies and instances of noncompliance, MHM identified \$1,487,417 in total questioned costs, consisting of \$1,468,431 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$18,986 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel & Staff Salaries	\$0	\$1,344,002	\$1,344,002
Contractual	\$12,251	\$3,000	\$15,251
Other Direct Costs	\$4,934	\$61,800	\$66,734
Equipment	\$0	\$46,629	\$46,629
Construction	\$0	\$13,000	\$13,000
Indirect Costs	\$1,801	\$0	\$1,801
<b>Totals</b>	<b>\$18,986</b>	<b>\$1,468,431</b>	<b>\$1,487,417</b>

MHM reviewed the corrective actions SMAD has taken to address the findings and recommendations from prior engagements or internal audits. The auditors identified three internal control deficiencies that would have a material effect on the Special Purpose Financial Statement. Of the three deficiencies, the auditors determined that adequate corrective action had been taken on two of the deficiencies. For the third deficiency, however, they noted that some of SMAD's personnel files were still incomplete and not up-to-date.

MHM rendered a qualified opinion on SMAD's Special Purpose Financial Statement due to the nearly \$1.49 million in questioned costs, which represents a material misstatement of the Special Purpose Financial Statement.

#### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that State's Grants Officer:

1. Determine the allowability of and recover, as appropriate, \$1,487,417 in questioned costs identified in the report.
2. Advise SMAD to address the report's 10 internal control findings.
3. Advise SMAD to address the report's four noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

November 3, 2014

The Honorable John F. Kerry  
Secretary of State

The Honorable James B. Cunningham  
U.S. Ambassador to Afghanistan

We contracted with Mayer Hoffman McCann, P.C. (MHM) to audit the costs incurred by Sayed Majidi Architecture and Design (SMAD) under a Department of State cooperative agreement.<sup>1</sup> The purpose of the cooperative agreement was to provide project management services for the architectural and engineering design of the new National Museum in Kabul, Afghanistan, and to plan and construct the exterior security upgrades for the existing national museum plot. MHM's contracted audit covered \$6.35 million in expenditures incurred from July 15, 2011 through February 28, 2014. The contract required the audit to be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the Department of State's Grants Officer:

1. **Determine the allowability of and recover, as appropriate, \$1,487,417 in questioned costs identified in the report.**
2. **Advise SMAD to address the report's 10 internal control findings.**
3. **Advise SMAD to address the report's four noncompliance findings.**

The results of MHM's audit are further detailed in the attached report. We reviewed MHM's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted auditing standards, was not intended to enable us to express, and we do not express, an opinion on SMAD's Special Purpose Financial Statement. We also express no opinion on the effectiveness of SMAD's internal control or compliance with the cooperative agreement, laws, and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where MHM did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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-036)

<sup>1</sup> Department of State cooperative agreement number S-AF-200-11-CA026.

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## Table of Contents

	Page
Summary:	
Background	1
Objectives, Scope and Methodology	1
Summary of Results	4
Summary of SMAD's Responses to Findings	8
Review of Prior Findings and Recommendations	10
Independent Auditors' Report on Special Purpose Financial Statement	11
Special Purpose Financial Statement	14
Notes to Special Purpose Financial Statement	15
Notes to Questioned Costs Presented on Special Purpose Financial Statement	17
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	20
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Finance Statement Performed in Accordance with <i>Government Auditing Standards</i>	23
Findings and Responses	25
Appendices:	
Appendix A: SMAD's Responses to Findings	49
Appendix B: Auditor's Rebuttal to SMAD's Responses to Findings	60

# **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## **SUMMARY**

### **Background**

On July 12, 2011, the United States Department of State (DOS) awarded Cooperative Agreement Number 2-AF-200-11-CA026 (Agreement) to Sayed Majidi Architecture and Design (SMAD) in the amount of \$2,793,699. The initial period of performance was from July 15, 2011 through June 30, 2012. The Agreement was modified 5 times, increasing the total award amount to \$6,350,952 and extending the period of performance through February 2014.

The purpose of the Agreement was to provide project management services for the architectural and engineering design of the new National Museum in Kabul, Afghanistan. The first amendment to the Agreement added a second project to plan and construct the exterior security upgrades for the existing national museum plot.

The Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under the Agreement for the period July 15, 2011 through February 28, 2014.

### **Objectives, Scope and Methodology**

#### **Objectives**

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (SPFS)* – Express an opinion on whether the Special Purpose Financial Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of SMAD's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether the SMAD 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.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether SMAD has taken adequate corrective action to address findings and recommendations from

# **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## **SUMMARY**

previous engagements that could have a material effect on the special purpose financial statement.

### **Scope**

The scope of this audit included all costs, including indirect costs, incurred during the period July 15, 2011 through February 28, 2014 under the Agreement. An indirect cost rate was not charged to the Agreement. Rather, costs considered as indirect were charged to the Indirect Costs cost category. Our testing of indirect costs included sampling individual transactions charged to the Indirect Costs cost category to ensure the costs were reasonable, allowable and allocable to the Agreement.

Audits in accordance with *Government Auditing Standards* require, among other things, that auditors performing the audits obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

### **Methodology**

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

#### **Entrance Conference**

An entrance conference was held via conference call on February 3, 2014. Participants included representatives of MHM, SMAD and SIGAR. The DOS was not able to participate in the entrance conference. We briefed them subsequent to the entrance conference as to what was discussed.

#### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of SMAD;
- Reviewed the Agreement and all modifications;
- Reviewed regulations specific to DOS that are applicable to the Agreement;

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

### **SUMMARY**

- Performed a financial reconciliation; and
- Selected samples based upon our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in number of transactions and homogeneous in nature, we selected a statistical sample of the costs. The sample size tested was based upon a 95% confidence level with a 5% maximum tolerable error rate. The sample was selected on a random basis. All other cost categories and/or accounts for which it was not appropriate to select a statistical sample, the sample was selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appeared to contain unallowable and restricted items according to the terms of the Agreement, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we tested 100% of the transactions.
  - For related party transactions, we tested 100% of the transactions.
  - For high risk cost categories, we sampled at least 50% of the dollar value of the account.
  - For medium risk cost categories, we sampled at least 20% of the dollar value of the account.
  - For low risk cost categories, we sampled at least 10% of the dollar value of the account, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

For those cost categories and/or accounts that were selected on a statistical basis, we calculated an error rate and projected the results to the population. If the results for a judgmental sample indicated a material error rate, our audit team consulted with the Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of a judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

- Subcontracted a portion of the fieldwork, including a physical inspection of the National Museum, to HLB Ijaz Tabussum & Co., an independent chartered public accounting firm with an office located in Kabul, Afghanistan.

### **Internal Control Related to the SPFS**

We reviewed SMAD's internal controls related to the SPFS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.



# **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## **SUMMARY**

### **Compliance with Agreement Requirements and Applicable Laws and Regulations**

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

### **Corrective Action on Prior Findings and Recommendations**

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

### **Special Purpose Financial Statement**

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were reasonable, allowable and allocable to the Agreement.

### **Exit Conference**

An exit conference was held on May 27, 2014 via conference call. Participants included MHM, SMAD, SIGAR and DOS. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

## **Summary of Results**

Our audit of the costs incurred by SMAD under the Agreement with DOS identified the following matters:

### **Auditor's Opinion on SPFS**

We issued a qualified opinion on the fairness of the presentation of the SPFS based upon the identification of \$1,487,417 of questioned costs, which represents a material misstatement of the SPFS.

# **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## **SUMMARY**

### **Questioned Costs**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations, including the DOS' Standard Terms and Conditions for Overseas Federal Assistance Awards and the FAR, Part 31. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows:

#### **Ineligible Costs**

- Taxes charged in error to the Agreement, resulting in \$12,251 of ineligible costs. See Finding 2014-4 in Finding and Responses section of this report.
- Excess depreciation expense charged to the Agreement, resulting in \$4,934 of ineligible costs. See Finding 2014-6 in the Findings and Responses section of this report.
- Excess overhead charged to the Agreement, resulting in \$1,801 of ineligible costs. See Finding 2014-8 in the Findings and Responses section of this report.

#### **Unsupported Costs**

- Unsupported compensation charged to the Agreement, resulting in questioned costs of \$1,340,662. See Finding 2014-1 in the Findings and Responses section of this report.
- Insufficient documentation to support business use of vehicles, resulting in \$61,800 of questioned costs. See Finding 2014-2 in the Finding and Responses section of this report.
- Documentation was not provided to support procurement efforts within the Contractual and Equipment cost categories, resulting in \$49,629 of questioned costs. See Finding 2014-3 in the Finding and Responses section of this report.
- Excessive costs charged for the purchase of two containers, resulting in \$13,000 of questioned costs. See Finding 2014-5 in the Findings and Responses section of this report.
- Timesheets were missing for seven individuals, resulting in \$3,340 of questioned costs. See Finding 2014-7 in the Findings and Responses section of this report.

Total questioned costs as a result of our audit are as follows:

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## SUMMARY

Ineligible costs	\$ 18,986
Unsupported costs	<u>1,468,431</u>
Total questioned costs	<u>\$1,487,417</u>

The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with the DOS.

## Internal Control Findings

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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 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. 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 SPFS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

### Material Weaknesses

The following material weakness was reported:

Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
2014-1	Unsupported compensation charged to the Agreement, resulting in questioned costs of \$1,340,662.	Disagree

### Significant Deficiencies

The following significant deficiencies were reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2014-2	Insufficient documentation to support business use of vehicles, resulting in \$61,800 of questioned costs.	Disagree
2014-3	Documentation was not provided to support procurement	Disagree

## SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

### **SUMMARY**

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
	efforts within the Contractual and Equipment cost categories, resulting in \$49,629 of questioned costs.	
2014-4	Taxes charged in error to the Agreement, resulting in \$12,251 of ineligible costs.	Partially Disagree
2014-5	Excessive costs charged for the purchase of two containers, resulting in \$13,000 of questioned costs.	Disagree
2014-6	Excess depreciation expense charged to the Agreement, resulting in \$4,934 of ineligible costs.	Agree
2014-8	Excess overhead charged to the Agreement, resulting in \$1,801 of ineligible costs.	Agree

### **Deficiencies**

The following deficiencies were reported.

Finding Number	Internal Control Finding – Deficiency	Auditee's Concurrence
2014-7	Timesheets were missing for seven individuals, resulting in \$3,340 of questioned costs.	Disagree
2014-9	Eleven purchases, totaling \$101,125, were paid for in cash. The individual purchases ranged from \$780 to \$32,300.	Disagree
2014-10	Various documents were missing from the personnel files.	Disagree

The complete management responses from SMAD to each of the internal control findings can be found in Appendix A to this report.

### **Compliance Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

### **SUMMARY**

SPFS. The results of our tests disclosed the following compliance findings as described Findings and Responses section of this report.

Finding Number	Compliance Finding	Auditee's Concurrence
2014-2	Insufficient documentation to support business use of vehicles, resulting in \$61,800 of questioned costs.	Disagree
2014-4	Taxes charged in error to the Agreement, resulting in \$12,251 of ineligible costs.	Partially Disagree
2014-6	Excess depreciation expense charged to the Agreement, resulting in \$4,934 of ineligible costs.	Agree
2014-8	Excess overhead charged to the Agreement, resulting in \$1,801 of ineligible costs.	Agree

The complete management responses from SMAD to each of the compliance findings can be found in Appendix A to this report.

### **Summary of SMAD's Responses to Findings**

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

- Finding 2014-1: SMAD disagrees with the finding, stating that the additional positions assumed by the two Directors cannot be measured and tracked by actual timesheets and hours worked, but rather by the milestones and the final outcome of work performed. SMAD also indicated that the additional compensation was related to additional work performed under the Cooperative Agreement.
- Finding 2014-02: SMAD disagrees with the finding, stating that that the vehicles were registered under the Directors' names instead of the company in order to avoid a complicated and lengthy registration process as the vehicles were urgently needed. SMAD also indicated that it had signed a statement when the vehicles were purchased indicating that they would be owned 100% by the company. In addition, a fuel log was maintained for both vehicles.
- Finding 2014-03: SMAD disagrees with the finding. For the procurement under the Contractual cost category, SMAD indicated a competitive process was not used due to time constraints. It also indicated that the price was competitive as SMAD had several price negotiations with the

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

### **SUMMARY**

vendor. For the procurements under the Equipment cost category, SMAD indicated that its internal memo of January 31, 2012 explains the sole source justification.

- Finding 2014-04: SMAD partially disagrees with the finding, stating that although the taxes were charged in error, it does not believe there is a lack of management oversight when compared to the numerous contracts signed during the course of the Agreement for which no other exceptions were noted.
- Finding 2014-05: SMAD disagrees with the finding, stating that the reason for purchasing the containers from two different vendors was to minimize the tax burden. SMAD also indicated that it had followed up with both vendors after the exit conference and obtained attestations from each vendor to prove that the purchase existed. Finally, SMAD does not believe the quotation obtained by the auditor in 2014 is comparable to the price of the two containers purchased due to changes in the economy, additional delivery and installation services included, as well as the quality of the containers.
- Finding 2014-06: SMAD agrees with the finding as presented.
- Finding 2014-07: SMAD disagrees with the finding indicating it had obtained an attestation on June 22, 2014 from each employee which indicates they worked 8 hours per day from January 1, 2014 through February 28, 2014.
- Finding 2014-08: SMAD agrees with the finding as presented.
- Finding 2014-09: SMAD disagrees with the finding, stating that in a dysfunctional and widely illiterate environment, the practice of using cash to pay for goods and/or services is inevitable. SMAD also indicates that all necessary support, such as a cash receipt acknowledgement, as required by Organization policy, was documented with the exception of two transactions where only the cash receipt acknowledgement was not obtained. SMAD does not believe that the missing documentation constitutes a critical error and the entire established process should not be questioned.
- Finding 2014-10: SMAD disagrees with the finding, stating that many of its employees were already employees when the Agreement began. For those employees hired after the beginning of the Agreement, some were from personal recommendations. For those employees, an application letter would not be in the file. In some cases, personnel went through several interviews and were selected and hired by senior management. In the case of performance evaluations, the Directors do not have evaluations as they can only be evaluated by the successful implementation of the Agreement.

In addition to SMAD's responses to the individual findings, it has included a request to refrain from publishing any financial data related to the audit of the Agreement.

# **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

For the Period July 15, 2011 through February 28, 2014

## **SUMMARY**

### **Review of Prior Findings and Recommendations**

We reviewed the corrective actions taken to address findings and recommendations from previous engagements or internal audits that could have a material effect on the SPFS. There were three prior internal control deficiencies identified in the management letter accompanying SMAD's financial statement audits for the periods ended March 19, 2012, December 20, 2012 and May 21, 2013. Based upon our review, adequate corrective action was taken on two of the three internal control deficiencies as described below.

- (1) The financial statement auditors noted that there were a few personnel files that were not complete and up-to-date. Items missing from the personnel files included educational documents, employee's salary details, and employee benefit details. During our testing of personnel files, we noted documentation that was missing from the personnel files. As such, the corrective action implemented was not adequate to address this deficiency. See Finding 2014-10 in the Findings and Responses section of this report.
- (2) The financial statement auditors noted that SMAD did not accrue all of its expenses. Specifically, electricity bills were not recorded. During our testing of expenses, we noted that SMAD was recording monthly expenses in a timely manner. As such, the corrective action has been adequately implemented.
- (3) The financial statement auditors noted that there was a lack of segregation of duties in that the same employee could check and approve vouchers. During our testing of vouchers, we noted that different individuals would check the voucher and approve the voucher. As such, the corrective action has been adequately implemented.



Board of Directors  
Sayed Majidi Architecture and Design  
House 817, Street 02, Shashdarak, District 9  
Kabul, Afghanistan

## **INDEPENDENT AUDITORS' REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT**

### *Report on the Special Purpose Financial Statement*

We have audited the accompanying Special Purpose Financial Statement of Sayed Majidi Architecture and Design (SMAD) under Cooperative Agreement No. S-AF-200-11-CA026 (Agreement) with the United States Department of State (DOS) for the period July 15, 2011 through February 28, 2014, and the related notes to the Special Purpose Financial Statement.

### *Management's Responsibility for the Special Purpose Financial Statement*

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

### *Auditors' Responsibility*

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

*Government Auditing Standards* require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in



Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

#### *Basis for Qualified Opinion*

We identified several transactions totaling \$1,487,417 that were questionable based upon our review of the underlying support for the specified transactions.

#### *Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by SMAD under the Agreement for the period July 15, 2011 through February 28, 2014 in accordance with the basis of accounting described in Note 2.

#### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 8, 2014 on our consideration of SMAD's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government*

Board of Directors  
Sayed Majidi Architecture and Design  
House 817, Street 02, Shashdarak, District 9  
Kabul, Afghanistan

---

*Auditing Standards* in considering SMAD's internal control over financial reporting and compliance.

This report is intended for the information of Sayed Majidi Architecture and Design, the United States Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



Morgan Hoffer McCombs P.C.

Irvine, California  
August 8, 2014

**SAYED MAJIDI ARCHITECTURE AND DESIGN**Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

## Special Purpose Financial Statement

For the Period July 15, 2011 through February 28, 2014

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
S-AF-200-11-CA026	\$6,349,699	\$6,349,699	\$ -	\$ -	\$ -	(4)
Other revenue	-	1,253	-	-	-	(4)
Total revenues	<u>6,349,699</u>	<u>6,350,952</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel/staff salaries	3,391,450	3,391,450	-	1,344,002	1,344,002	(A)
Travel cost	78,219	78,219	-	-	-	
Contractual	476,077	476,077	12,251	3,000	15,251	(B)
Other direct costs	532,980	532,980	4,934	61,800	66,734	(C)
Equipment	84,629	84,629	-	46,629	46,629	(D)
Supplies	69,178	69,178	-	-	-	
Construction	1,659,019	1,659,019	-	13,000	13,000	(E)
Indirect costs	<u>59,400</u>	<u>59,400</u>	<u>1,801</u>	<u>-</u>	<u>1,801</u>	(F)
Total costs incurred	<u>6,350,952</u>	<u>6,350,952</u>	<u>18,986</u>	<u>1,468,431</u>	<u>1,487,417</u>	
Outstanding fund balance	<u>\$ (1,253)</u>	<u>\$ -</u>	<u>(18,986)</u>	<u>(1,468,431)</u>	<u>(1,487,417)</u>	(9)

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

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Notes to Special Purpose Financial Statement<sup>1</sup>

For the Period July 15, 2011 through February 28, 2014

## (1) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under Cooperative Agreement Number S-AF-200-11-CA026 (Agreement) for the period July 15, 2011 through February 28, 2014. Because the SPFS presents only a selected portion of the operations of SMAD, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SMAD. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Agreement.

## (2) **Basis of Accounting**

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulations, Part 31 – *Contracts with Commercial Organization*.

## (3) **Foreign Currency Conversion Method**

For purposes of preparing the SPFS, SMAD converts its expenses that were paid in Afghanistan (local currency) into U.S. dollar (reporting currency) by applying an exchange rate prevailing on the date of transaction.

## (4) **Revenue**

As of February 28, 2014, SMAD has reported \$6,350,952 in revenue. This revenue equals total expenditures reported to the United States Department of State (DOS) on the February 28, 2014 SF-425. For the period July 15, 2011 through February 28, 2014, SMAD has drawn a total of \$6,349,699 from its DOS Agreement. The difference of \$1,253 represented program income generated by SMAD from draw income on its bank balance totaling \$700, and rental income from equipment totaling \$553.

## (5) **Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the final, DOS-approved Agreement budget.

---

<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of SMAD

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Notes to Special Purpose Financial Statement

(Continued)

**(6) Currency**

All amounts presented are shown in U.S. dollars, the reporting currency of SMAD. Costs incurred in a foreign country and recorded in a foreign currency have been converted to U.S. dollars consistent with SMAD's foreign currency conversion policy.

**(7) Status of Financial Reporting to SMAD**

The SPFS, as presented, reflects all SF-425s submitted to DOS as of February 28, 2014. The Agreement has been closed and no further costs will be incurred.

**(8) Indirect Costs**

SMAD did not charge indirect costs based upon an approved indirect cost rate, but rather directly charged administrative expenses under this cost category.

**(9) Outstanding Fund Balance**

As of February 28, 2014, there was no outstanding fund balance under the Agreement as the SPFS is prepared under the accrual basis of accounting as described in Note 2.

**(10) Subsequent Event**

As of February 28, 2014, there was \$352,326 of accrued expenses payable to various vendors. Of this amount, \$84,073 was liquidated between the period March 1, 2014 through May 13, 2014. The remaining accrued expenses payable to vendors was \$268,253.

Additionally, due to the delay in the construction of the National Museum of Afghanistan, one contractor, Elite Construction Company, requested SMAD to pay \$470,940 in extra general and administrative costs. This amount was not included on the SPFS, not charged to the Agreement, nor requested from the DOS. The ultimate decision as to whether this amount will be paid rests with SMAD's management.

## SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Notes to Questioned Costs Presented on Special Purpose Financial Statement<sup>2</sup>

For the Period July 15, 2011 through February 28, 2014

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

**(A) Personnel/Staff Salaries**

SMAD reported personnel/staff salaries in the amount of \$3,391,450 for the period July 15, 2011 through February 28, 2014. During our review of these costs, we noted the following which resulted in questioned costs:

<u>Finding Number</u>	<u>Observation</u>	<u>Unsupported Costs</u>
2014-1	Unsupported compensation	\$1,340,662
2014-7	Missing timesheets	<u>3,340</u>
Total questioned personnel/staff salaries		<u>\$1,344,002</u>

Details of the specific observations noted can be found in the specific findings in the Findings and Responses section of this report.

**(B) Contractual**

SMAD reported contractual costs in the amount of \$476,077 for the period July 15, 2011 through February 28, 2014. During our review of these costs, we noted the following which resulted in questioned costs:

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>		
		<u>Ineligible Costs</u>	<u>Unsupported Costs</u>	<u>Total</u>
2014-3	Documentation was not provided to support procurement efforts	\$ -	\$3,000	\$ 3,000
2014-4	Taxes charged in error	<u>12,251</u>	<u>-</u>	<u>12,251</u>
Total questioned contractual costs		<u>\$12,251</u>	<u>\$3,000</u>	<u>\$15,251</u>

<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

## (B) Contractual (Continued)

Details of the specific observations noted can be found in the specific findings in the Findings and Responses section of this report.

## (C) Other Direct Costs

SMAD reported other direct costs in the amount of \$532,980 for the period July 15, 2011 through February 28, 2014. During our review of these costs, we noted the following which resulted in questioned costs:

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>		
		<u>Ineligible Costs</u>	<u>Unsupported Costs</u>	<u>Total</u>
2014-2	Insufficient documentation to support business use of vehicles	\$ -	\$61,800	\$61,800
2014-6	Excess depreciation charged	<u>4,934</u>	<u>-</u>	<u>4,934</u>
Total questioned contractual costs		<u>\$4,934</u>	<u>\$61,800</u>	<u>\$66,734</u>

Details of the specific observations noted can be found in the specific findings in the Findings and Responses section of this report.

## (D) Equipment

SMAD reported equipment in the amount of \$84,629 for the period July 15, 2011 through February 28, 2014. Competitive bids were not solicited for 2 transactions in the total amount of \$46,629. See Finding 2014-3 in the Findings and Responses section of this report.

## (E) Construction

SMAD reported construction costs in the amount of \$1,659,019 for the period July 15, 2011 through February 28, 2014. The price paid for two containers was excessive, resulting in questioned costs in the amount of \$13,000. See Finding 2014-5 in the Findings and Responses section of this report.

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

**(F) Indirect Costs**

SMAD reported indirect costs in the amount of \$59,400 for the period July 15, 2011 through February 28, 2014. The Company did not allocate indirect costs to other projects/programs during the period, resulting in overcharged indirect costs in the amount \$1,801. See Finding 2014-8 in the Findings and Responses section of this report.





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

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Sayed Majidi Architecture and Design  
House 817, Street 02, Shashdarak, District 9  
Kabul, Afghanistan

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 Special Purpose Financial Statement of Sayed Majidi Architecture and Design (SMAD) representing revenues received and costs incurred under Cooperative Agreement Number S-AF-200-11-CA026 (Agreement) with the United States Department of State (DOS) for the period July 15, 2011 through February 28, 2014, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 8, 2014, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

*Government Auditing Standards* require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

**Internal Control over Financial Reporting**

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

opinion on the effectiveness of SMAD's internal control. Accordingly, we do not express an opinion on the effectiveness of SMAD's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, significant deficiencies and 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. The items reported in the accompanying Findings and Responses as Findings 2014-7, 2014-9 and 2014-10 are considered to be deficiencies.

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 deficiency described in the accompanying Findings and Responses as Finding 2014-1 to be a material weakness. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Findings 2014-1, 2014-2, 2014-3, 2013-5, 2014-9 and 2014-10.

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 described in the accompanying Findings and Responses as Findings 2014-2, 2014-3, 2014-4, 2014-5, 2014-6 and 2014-8 to be significant deficiencies.

### **SMAD's Response to Findings**

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

### **Purpose of this Report**

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

Board of Directors  
Sayed Majidi Architecture and Design  
House 817, Street 02, Shashdarak, District 9  
Kabul, Afghanistan

---

Additionally, this report is intended for the information of Sayed Majidi Architecture and Design, the United States Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink that reads "Mayer Hoffman M.C. P." The signature is written in a cursive style.

Irvine, California  
August 8, 2014



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

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Sayed Majidi Architecture and Design  
House 817, Street 02, Shashdarak, District 9  
Kabul, Afghanistan

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 Special Purpose Financial Statement of Sayed Majidi Architecture and Design (SMAD) representing revenues received and costs incurred under Cooperative Agreement Number S-AF-200-11-CA026 (Agreement) with the United States Department of State (DOS) for the period July 15, 2011 through February 28, 2014, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 8, 2014, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

*Government Auditing Standards* require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SMAD's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. As

we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Findings 2014-1, 2014-2, 2014-3, 2013-5, 2014-9 and 2014-10. 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 the accompanying Findings and Responses as Findings 2014-2, 2014-4, 2014-6 and 2014-8.

### **SMAD's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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 compliance and other matters. Accordingly, this communication is not suitable for any other purpose.

Additionally, this report is intended for the information of Sayed Majidi Architecture and Design, the Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



Irvine, California  
August 8, 2014

## SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

### Findings and Responses

For the Period July 15, 2011 through February 28, 2014

#### **2014-1: Unsupported Compensation**

##### **Condition:**

SMAD was awarded two projects under the Agreement. These projects were the National Museum of Afghanistan – Project Management (PM), and the National Museum of Afghanistan – External Security Upgrade (ESU). Total personnel/staff salaries charged to the two projects were \$3,391,450. Of this total personnel/staff salaries, the salaries paid to SMAD's two Directors was \$2,688,481 as follows:

<u>Position</u>	<u>Project</u>		<u>Total</u>
	<u>PM</u>	<u>ESU</u>	
Director of Finance	\$ 570,259	\$ 508,828	\$1,079,087
Director of Architecture & Design	530,426	548,661	1,079,087
Withholding tax	<u>289,319</u>	<u>240,988</u>	<u>530,307</u>
Total personnel costs	<u>\$1,390,004</u>	<u>\$1,298,477</u>	<u>\$2,688,481</u>

In addition to their regular company responsibilities of serving as a Director, both Directors assumed additional responsibilities in delivering services under the Agreement. The Director of Finance assumed three additional positions including Senior Accountant, Procurement Contract Expert and Competition Organization Expert. The Director of Architecture & Design assumed two additional positions including Senior Project Manager and Senior Project Architect. The résumés of the two Directors supported that they were qualified for each of the positions they assumed. Therefore, during the period of performance, the Directors provided the services of seven full-time equivalents (FTEs). The additional duties assumed by the Directors, which also creates a lack of separation of duties, resulted in inadequate internal controls that can raise the appearance or perception of fraud under the Agreement.

During the audit period, SMAD's audited financial statements indicated that SMAD had projects in addition to the two projects funded by the Agreement. Thus, some of the Directors' time worked would be allocated to the other projects.

The timesheets for the Directors did not break down the number of hours worked in each of the capacities they were serving. The timesheets only indicated the total hours worked. Beginning in March 2013, the timesheets did break down the number of hours by project, but still did not include a breakdown of the hours spent providing services in each of the various capacities they assumed. Additionally, the timesheets have no hours allocated to the other projects or time spent in the general administration of the Company.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-1: Unsupported Compensation (Continued)**

Based upon review of the timesheets of the Directors for the 17 months sampled throughout the audit period, the FTEs for the Director of Finance and the Director of Architecture & Design were 1.73 and 1.88, respectively. The calculation of the FTEs was based upon an average of monthly hours actually worked by each Director for each year, using the 17 sampled months tested and a 2,080 hour year. This equates to total FTEs for the two Directors of 3.61, which is significantly below the 7.00 FTEs for all of the positions they have assumed. The unsupported FTEs resulted in inadequate internal controls that can raise the appearance or perception of fraud under the Agreement.

Additionally, the Directors received compensation for extra work performed under PM during the period March 1, 2012 through June 30, 2012. Total extra compensation was \$76,000. There was no documentation included on the timesheets to support what work was performed for this extra compensation.

### **Cause:**

SMAD indicated that the reason the Directors' salaries were so high was due to their assumption of additional responsibilities. There was a lack of resources available within Afghanistan to serve in the various capacities required to perform under the Agreement. The Directors provided an internal memo dated February 25, 2012 which indicated that they had notified the DOS and received approval from the DOS Grant Officer Representative and Grant Officer for the Directors to assume the additional positions. DOS confirmed via email in response to this audit on May 14, 2014 that the assumed positions were approved. The Directors indicated that they worked a significant amount of hours per day, seven days per week, including bank holidays and non-working days. In addition, fringe benefits were not included in the budget and the salary rates include fringe benefits.

### **Criteria:**

48 CFR 31.205-6, *Compensation for personal services*, states, in part:

"...(1) Compensation for personal services must be for work performed by the employee...

(2) The total compensation for individual employees or job classes of employees must be reasonable for the work performed...

(b) *Reasonableness...*

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-1: Unsupported Compensation (Continued)**

“(2) *Compensation not covered by labor management agreements.* Compensation for each employee or job class of employees must be reasonable for the work performed. Compensation is reasonable if the aggregate of each measurable and allowable element sums to a reasonable total. In determining the reasonableness of total compensation, consider only allowable individual elements of compensation....”

Additionally, 48 CFR 31.203, *Indirect Costs*, states, in part:

“...(b) After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to intermediate or two or more final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective...”

Furthermore, 48 CFR 31.201-2, *Determining allowability*, states, in part:

“...(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:**

Unsupported compensation for the two Directors is calculated as follows:

<u>Position</u>	<u>Total Personnel Costs</u>	<u>Assumed FTEs</u>	<u>Actual FTEs</u>	<u>Unsupported FTEs</u>	<u>Percent of Unsupported FTEs</u>	<u>Questioned Amount</u>
Director of Finance	\$1,344,241	4.00	1.73	2.27	56.75%	\$ 762,857
Director Architecture & Design	<u>1,344,240</u>	<u>3.00</u>	<u>1.88</u>	<u>1.12</u>	37.33%	<u>501,805</u>
Total questioned costs based upon unsupported FTEs	<u>\$2,688,481</u>	<u>7.00</u>	<u>3.61</u>	<u>3.66</u>		\$1,264,662
Total questioned unsupported extra compensation						<u>76,000</u>
Total questioned costs						<u>\$1,340,662</u>



# **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-1: Unsupported Compensation (Continued)**

### **Recommendation:**

- (1) We recommend that SMAD either provide sufficient supporting documentation to the DOS to demonstrate that the FTEs actually worked support the 7.00 FTEs for which the two Directors were paid, and provide support for the extra compensation paid, or return \$1,340,662 to the DOE for unsupported Personnel/Staff Salaries costs.
- (2) We recommend that SMAD revise its policies and procedures to clearly indicate that when individuals are working in more than one position, that the hours worked in each position, and project, be tracked.
- (3) We recommend that if individuals are performing work in more than one position, that adequate compensating controls be implemented to ensure a proper segregation of duties exists.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-2: Personal Use of Vehicles**

### **Condition:**

SMAD purchased two Toyota Land Cruisers under the Equipment cost category at a total cost of \$61,800. The cost of the vehicles was included in the Other Direct Costs cost category on the SPFS. The vehicles were claimed to be used 100% by the Company. However, the vehicles were registered in the name of the Directors and not in the name of the SMAD. Since the vehicles were registered in the name of the Directors, they are considered to be personal vehicles. No mileage logs were provided to support the business/personal use. Vehicles purchased by the Company but registered in the name of the Directors resulted in inadequate internal controls that can raise the appearance or perception of fraud under the Agreement.

### **Cause:**

SMAD indicated that the vehicles were registered under the name of the Directors as that was determined to be the most suitable solution to process the registration. The Directors indicated they signed an internal memo stating the vehicles would be the property of SMAD when the vehicles were purchased.

### **Criteria:**

48 CFR 31.201-2, *Determining allowability*, states, in part:

“...(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...”

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

“...(d) Costs of contractor-owned or -leased automobiles, as used in this paragraph, include the costs of lease, operation (including personnel), maintenance, depreciation, insurance, etc. These costs are allowable, if reasonable, to the extent that the automobiles are used for company business. That portion of the cost of company-furnished automobiles that relates to personal use by employees (including transportation to and from work) is compensation for personal services and is unallowable as stated in 31.205-6(m)(2)...”

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

### **2014-2: Personal Use of Vehicles (Continued)**

#### **Effect:**

A lack of documentation to support the business use of personally-owned vehicles can result in an increased risk that unallowable costs are charged to the Agreement. Total questioned Equipment costs are \$61,800.

#### **Recommendation:**

- (1) We recommend that SMAD either provide additional supporting documentation to the DOS to demonstrate the vehicles were used 100% for company business, which would include not being used for normal commuting, or return \$61,800 to the DOS for questionable Other Direct Costs.
- (2) We recommend that SMAD establish procedures to ensure that mileage logs, or some other reasonable mechanism, are used to support the business and personal use of the vehicles.

## SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

### Findings and Responses

(Continued)

#### **2014-3: Lack of Adherence to Procurement Procedures**

**Condition:**

SMAD did not follow its procurement procedures for the following transactions:

Contractual:

On July 23, 2011, SMAD paid \$3,000 to Advance IT Solution for the setup of its IT network and domain share point desk. Three quotations for these services were not obtained.

Equipment:

<u>Date</u>	<u>Vendor</u>	<u>Description</u>	<u>Deficiency</u>	<u>Amount</u>
12/7/11	Alfajer Establishment	IS 01 image station heavy duty wooden tripod 2GB USB and mini prism set from Dubai	3 quotations not obtained	\$35,629
8/7/12	Alfajer Establishment	Robotic package accessories for IS 01 image station	3 quotations not obtained	<u>11,000</u>
Total Equipment costs that did not follow procurement procedures				<u>\$46,629</u>

Subsequent to the completion of fieldwork, SMAD provided an internal memo dated January 29, 2012 discussing the cost overrun for this equipment and indicating that the equipment was not available in the local Afghanistan markets and needed to be purchased from a company in the United Arab Emirates. This memo was dated more than a month after the purchase of the equipment, and more than seven months before the purchase of the robotic package accessories. The memo was not included in the procurement documentation provided for audit, but was provided only after an indication was made the costs were going to be questioned. Providing a memo only after an issue was raised and having the memo dated not in line with the procurement resulted in inadequate internal controls that can raise the appearance or perception of fraud under the Agreement.

Total costs incurred for which procurement procedures were not followed were as follows:

Contractual	\$ 3,000
Equipment	<u>46,629</u>
Total	<u>\$49,629</u>

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-3: Lack of Adherence to Procurement Procedures (Continued)**

### **Cause:**

SMAD indicated that for the contractual purchase, it did not obtain quotes due to a tight deadline. For the equipment purchases, SMAD provided a memo dated after the purchase which it indicates justifies the sole source procurement. Additionally, SMAD lacked adequate management oversight and separation of duties for the operation of the agreement.

### **Criteria:**

SMAD's Operations Procurement Policies and Procedures Manual, Section D.2.2, *Monetary Threshold within the PMS for major purchases*, states in part:

“...Direct Procurement between USD 1,000.00 and USD 3,000.00

- At least three quotations shall be obtained from reputable suppliers or suppliers with a reputation of cost effective work with the company...

Major Procurement between USD 20,000 and USD 75,000

- At least three quotations shall be obtained from reputable suppliers or suppliers with a reputation of cost effective work with the company
- Exceptions may be applied in specific cases only, and require approval of the PB
- Written quotations shall be recorded by the purchasing employee and kept on file...”

Additionally, SMAD's Operations Procurement Policies and Procedures Manual, Section D.3, *Exceptions*, states in part:

“...A request for waiver of a competitive process should not be viewed as a mechanism to obviate the need for careful forward planning. The granting of waiver of a competitive process must be appropriate documented and approved in accordance with company's policies. The responsible in approving an exempt method will consider the scale scope, and relative risk of the purchase including the principles defined in this policy.”

Cooperative Agreement No. 2-AF-200-11-CA026, US Department of State Post/Program Specifics states, in part:

“...Procurement Standards...”

- c. All procurement transactions will be conducted in a manner to provide, to the maximum extent practical, open and free competition...”

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-3: Lack of Adherence to Procurement Procedures (Continued)**

### **Effect:**

Lack of adherence to procurement procedures can result in the acquisition of goods and/or services that are not competitively priced. In a hostile environment, adherence to procurement policies and procedures are critical in order to ensure funds expended were reasonable, allowable and allocable. Total questioned costs are as follows:

Contractual	\$ 3,000
Equipment	<u>46,629</u>
Total	<u>\$49,629</u>

### **Recommendation:**

- (1) We recommend that SMAD either provide adequate documentation to the DOS to demonstrate the goods and services purchased were competitively procured, or return \$49,629 to the DOS for costs in which it did not comply with its procurement procedures, DOS procurement standards and FAR requirements.
- (2) We recommend that SMAD provide procurement training to all personnel to ensure that established procedures related to competitive bidding are followed and that documentation supporting procurement decisions is retained.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-4: Taxes Charged in Error**

### **Condition:**

SMAD utilized 5 different companies to provide a variety of consulting services charged under the Contractual costs category. The agreements with each of these companies indicated that the taxes Business Receipts Tax (BRT) related to providing the services would be the responsibility of the companies. However, SMAD included the taxes in its costs charged to the Agreement. Total taxes charged and reported in the Contractual cost category were \$12,251.

### **Cause:**

Taxes were charged in error due to a lack of adequate management oversight resulting from a lack of segregation of duties with too few people performing too many roles.

### **Criteria:**

48 CFR 31.201-2, *Determining allowability*, states in part:

“...(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...”

Additionally, Paragraph 1.7 or 1.8, depending upon the individual Service Contract with the consulting company, states:

"The client warrants that the Contractor, the Sub-contractor and the Personnel shall be subject to indirect taxes, duties, fees, Business Receipt Tax (BRT) and Income Tax on all Personnel, levies and other impositions imposed under the Applicable Law and the same is included in the contract ceiling amount specified in SC Clause 5.2."

### **Effect:**

Lack of management oversight over preparation of invoices can result in unallowable costs being included in the invoiced amount. Reporting costs that were incurred by other companies raises concern over SMAD's billing practices. Total questioned Contractual costs deemed ineligible are \$12,251.

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

### **2014-4: Taxes Charged in Error (Continued)**

#### **Recommendation:**

- (1) We recommend that SMAD return \$12,251 to the DOS for taxes charged in error.
- (2) We recommend that SMAD develop procedures to ensure management reviews all billings prior to issuance to ensure only allowable costs have been incurred.



# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-5: Excessive Cost for Containers**

### **Condition:**

SMAD purchased two containers at a cost of \$6,500 each, for a total of \$13,000 which was charged to the Construction cost category. The containers were purchased from two different vendors, only one of which went through the competitive bid process. The invoices for the two containers are dated the same date from the two different vendors. One of the vendors, Noori Sons Conics Maker & Container Seller, could not be contacted by phone and the business did not exist at the physical address. The other vendor, Toor Jan and Inayat Ullah Container Seller, was contacted and indicated they have never sold a container at a cost of \$6,500 and don't recall selling one to SMAD. The containers were physically inspected and do exist. An independent quotation was obtained as part of the audit in order to determine a reasonable cost. The quotation was \$3,500 plus \$300 for delivery, installation and security clearance per container. For two containers, this equates to a total reasonable cost of \$7,600. As one vendor could not be located and the second vendor didn't recall making a sale to SMAD, the appearance or perception of fraud is raised under the Agreement.

### **Cause:**

SMAD indicated that: (1) it did not perform a competitive bid process for one of the vendors since a competitive bid process was already performed on the other vendor, and the price was the same thus the competitive bid process was not necessary; and (2) the containers were purchased from two different suppliers in order to optimize the tax burden. However, there is a possibility that the vendors' invoices may have been falsified.

### **Criteria:**

48 CFR 31.201-2, *Determining allowability* states in part:

"...(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..."

Additionally, 48 CFR 31.201-3, *Determining Reasonableness*, states, in part:

"...(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business...No presumption of reasonableness shall be attached to the incurrence of costs by a contractor.."

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-5: Excessive Cost for Containers (Continued)**

SMAD's Operations Procurement Policies and Procedures Manual, Section D.2.2, *Monetary Threshold within the PMS for major purchases*, states, in part:

“...Minor Procurement between USD 3,000.00 and USD 20,000.00

- At least three quotations shall be obtained from reputable suppliers or suppliers with a reputation of cost effective work with the company...
- The quotations shall be tested for contestability through validated comparison methods
- Quotations and contestability evidence shall be recorded by the purchasing employee and kept on file...”

### **Effect:**

Failure to competitively bid goods and/or services can result in the procurement of goods and/or services that are at a price in excess of market. Adherence to procurement policies and procedures are critical in order to ensure funds expended were reasonable, allowable, allocable, and not fraudulent. Total questioned Construction costs are \$13,000.

### **Recommendation:**

- (1) We recommend that SMAD either provide adequate documentation to the DOS to demonstrate that the containers were purchased at a competitive price, or return \$13,000 to the DOS for excessive Construction costs paid.
- (2) We recommend that SMAD establish procedures to ensure that all of its procurement follow its procurement requirements, which include obtaining competitive pricing for all goods and services is procured, as well as test the contestability of the quotations and maintain records on file.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-6: Excess Depreciation Charged**

### **Conditions:**

SMAD used assets that it already owned prior to award of the Agreement in providing services under the Agreement. The assets consisted of computers, printers, scanners, external hard drives, a camera, various office furniture and equipment, carpet and curtains. The net book value of these assets at the time of award was \$20,870. SMAD charged the entire net book value to the Other Direct Costs cost category. These assets should have been depreciated over their remaining useful life, and the depreciation charged to the Agreement. Excess depreciation was calculated as follows:

Net book value charged to Agreement	\$20,870
Depreciation expense for the period July 15, 2011 through February 28, 2014	<u>15,936</u>
Excess depreciation charged	<u>\$ 4,934</u>

### **Cause:**

SMAD was unaware of the requirements of the Federal Acquisition Regulation (FAR). SMAD indicated that it had treated the costs of its assets in the same manner as the cost of newly purchased assets, whereby the total cost is to be depreciated over the life of the Award. SMAD indicated this was reported to the DOS in February 2012, and the DOS did not indicate any incorrect accounting treatment.

### **Criteria:**

48 CFR 31.205-11, *Depreciation*, states in part:

“(a) Depreciation on a contractor’s plant, equipment, and other capital facilities is an allowable contract cost, subject to the limitations contained in this cost principle...

(c) ...allowable depreciation shall not exceed the amount used for financial accounting purposes, and shall be determined in a manner consistent with the depreciation policies and procedures followed in the same segment on non-Government business...”

### **Effect:**

Incorrect treatment of depreciation resulted in excess depreciation costs charged to the Agreement. Total questioned Other Direct Costs deemed ineligible are \$4,934.

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

### **2014-6: Excess Depreciation Charged (Continued)**

#### **Recommendation:**

- (1) We recommend that SMAD either provide evidence to the DOS to support why the full net book value of the asset should be charged, or return \$4,934 to the DOS for excess depreciation charged.
- (2) We recommend that SMAD establish procedures to ensure that depreciation of assets is calculated in accordance with the FAR.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-7: Missing Timesheets for Personnel**

### **Condition:**

SMAD did not provide timesheets for the months of January 2014 and February 2014 for seven individuals. Total costs charged to the Personnel/Staff Salaries cost category related to these missing timesheets were \$3,340.

### **Cause:**

SMAD indicated that the seven individuals with no timesheets were illiterate and obtaining a fingerprint from them was not practical since different fingerprints cannot be distinguished from each other. SMAD indicated since the Company has only a small number of employees, day-to-day activities were closely managed and monitored by management.

### **Criteria:**

SMAD's Managing Time Sheet Standard Operating Procedure, Section 5, *Procedure*, states:

"Steps required to perform this procedure (who, what, when, where, why, how).

- I. Time sheet responsible will print out time sheet at the start of each week and put in entrance hall
- II. Individual employees will register his coming and leaving time of office on daily basis
- III. Each employee will make signature in front of his attendance
- IV. At the end of each week, individual employee will fill out time sheet template developed for weekly time sheet by project, and will obtain signature from superior
- V. Electronic copy of weekly time sheet will be saved on the server accordingly and hard copy of each employees will be hand over to time sheet responsible
- VI. Time sheet responsible will archive employees' time sheets in relevant folder
- VII. Time sheet responsible will update monthly time sheet template to be completed by the employees"

48 CFR 31.201-2, *Determining allowability* states in part:

"...(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..."

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

### **2014-7: Missing Timesheets for Personnel (Continued)**

#### **Effect:**

Failure to maintain adequate supporting documentation resulted in an inability to demonstrate that costs incurred were allowable, allocable and related to the Agreement. Total questioned Personnel/Staff Salaries costs are \$3,340.

#### **Recommendation:**

- (1) We recommend that SMAD either provide adequate documentation to the DOS to evidence the hours worked by the seven individuals for the months of January 2014 and February 2014, or return \$3,340 to the DOS for unsupported Personnel/Staff Salaries costs.
- (2) We recommend that SMAD revise its Managing Time Sheet Standard Operating Procedure to address instances when employees are illiterate and not able to complete a timesheet, and provide training to its employees on the procedures for preparing timesheets.

## SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

### **2014-8: Excess Overhead Charged**

#### **Condition:**

SMAD charged 100% of its overhead costs (general and administrative expenses), totaling \$59,400, to the Agreement. However, there were other projects/programs operated by the Company for which overhead should have been allocated. Using revenue received by project/program as a basis for allocating overhead costs, 3.03% of overhead should have been allocated to programs other than those under Agreement. This resulted in excess costs of \$1,801 charged to the Indirect Cost cost category.

#### **Cause:**

SMAD did not have an appropriate base for allocating its overhead. It indicated the allocation of overhead costs to other projects was immaterial. SMAD indicated the two other projects not funded by the Agreement were subcontracted to other firms in mid to late 2011, and there was minimal involvement by SMAD. Thus, the overhead costs associated with the other projects were insignificant and did not need to be allocated. SMAD did not have an appropriate base for allocating indirect costs.

#### **Criteria:**

48 CFR 31.203, *Indirect costs*, states, in part:

“...(d) Once an appropriate base for allocating indirect costs has been accepted, the contractor shall not fragment the base by removing individual elements. All items properly includable in an indirect cost base shall bear a pro rata share of indirect costs irrespective of their acceptance as Government contract costs. For example, when a cost input base is used for the allocation of G&A costs, the contractor shall include in the base all items that would properly be part of the cost input base, whether allowable or unallowable, and these items shall bear their pro rata share of G&A costs...”

#### **Effect:**

Removing costs from the allocation base results in the Agreement bearing more than its fair share of indirect costs. Unreasonable overhead costs claimed increase the risk of federal funds being abused and the possibility of double charging overhead costs. Total questioned Indirect Costs deemed ineligible was \$1,801.

#### **Recommendation:**

- (1) We recommend that SMAD either provide additional documentation to the DOS to demonstrate why other projects and programs should be excluded from receiving an allocation of overhead, or return \$1,801 to the DOS for excess overhead charged.

## **SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

### **2014-8: Excess Overhead Charged (Continued)**

- (2) We recommend that SMAD revise its overhead allocation methodology to ensure that all projects/programs operated by the Company received a fair and equitable allocation of overhead.



# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-9: Excessive Cash Payments**

### **Condition:**

SMAD's cash handling policy requires Director approval for all cash payments in excess of \$500. During the period July 15, 2011 through February 28, 2014, the following was noted related to cash payments:

- There were 11 purchases, totaling \$101,125 that were paid for in cash.
- The individual cash purchases ranged in value from \$780 to \$32,300.
- Of the 11 purchases, three were for vehicles.
- Of the 11 purchases, two items totaling \$12,023 were for construction. There was no vendor acknowledgement of receipt of payment for these two items. However, the procurement procedures were followed and all documentation, other than the acknowledgement of receipt, was in the procurement file.

All cash payments had the required Director approval, but the size of some of the purchases made in cash was excessive. Excessive payments in cash resulted in inadequate internal controls that can raise the appearance or perception of fraud under the Agreement.

### **Cause:**

SMAD indicated that due to the nature of the environment, there will be instances where checks and bank payments cannot be used or would not be accepted by a local supplier or contractor.

### **Criteria:**

SMAD's Operations Procurement Policies and Procedures Manual, Section C.2.1, *Petty Cash*, states in part:

"Petty cash may be used for simple procurement purchases from an external supplier. Petty cash accounts are provided to enable reimbursement of purchase up to USD 500.00. Exceptions may be applied in accordance with S.E.E.'s cash management policy..."

SMAD's Cash Handling Policy, Section D.4, *Cash Management Policy*, states, in part:

"Adequate control over all cash receipts and disbursements are a vital element of the company's internal accounting policy..."

4 The limit for cash fund and payment is controlled and approved by Dir. O+F. The maximum amount allowable in cash to suppliers...is USD 500.00. For payments in cash in excess of the amount of USD 500.00 a check payment must be used

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-9: Excessive Cash Payments (Continued)**

“5 Only in justified cases the Dir. O+F may allow for payment in excess of USD 500.00...”

Additionally, Common Rule, OMB Circular A-110, Paragraph \_\_.21, *Standards for financial management systems*, states, in part:

“...(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes...”

48 CFR 31.201-3, *Determining Reasonableness*, states, in part:

“...(b) What is reasonable depends upon a variety of considerations and circumstances, including—

- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor’s business or the contract performance;
- (2) Generally accepted sound business practices, arm’s-length bargaining, and Federal and State laws and regulations;
- (3) The contractor’s responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
- (4) Any significant deviations from the contractor’s established practices...”

### **Effect:**

Paying for purchases in cash can increase the risk of cash being misappropriated and give the appearance of fraud, especially when adequate internal controls were not exercised throughout the Agreement.

### **Recommendation:**

We recommend that SMAD discontinue the practice of paying for purchases in excess of its petty cash limits. If it is absolutely necessary that payment be made in cash, then SMAD should establish procedures to ensure that the reason for the cash payment is documented, proper approvals are obtained, an acknowledgement of receipt form be signed by the vendor, and institute/implement internal controls as required.

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-10: Missing Documents in Personnel Files**

### **Condition:**

The following documents were not present in 12 out of 12 personnel files reviewed:

- Job announcement
- Application letter
- Written test paper
- Short list form
- Interview panel's recommendations
- Appointment letter

In addition, the following documents were not consistently present in 14 personnel files reviewed:

- Performance evaluations (4)
- Leave record (3)
- Résumé (2)

Additionally, annual financial audits for the periods ended March 31, 2012 and December 31, 2012 included findings that SMAD's personnel files were not complete. Missing documents from personnel files raises the suspicion of fraud or abuse under the Agreement.

### **Cause:**

SMAD lacked effective management to direct appropriate policies and implement necessary procedures.

### **Criteria:**

29 CFR 1602.14, *Preservation of records made or kept*, states, in part:

"Any personnel or employment record made or kept by an employer (including but not necessarily limited to requests for reasonable accommodation, application forms submitted by applicants and other records having to do with hiring, promotion, demotion, transfer, lay-off or termination, rates of pay or other terms of compensation, and selection for training or apprenticeship) shall be preserved by the employer for a period of one year from the date of the making of the record or the personnel action involved, whichever occurs later..."

# SAYED MAJIDI ARCHITECTURE AND DESIGN

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Findings and Responses

(Continued)

## **2014-10: Missing Documents in Personnel Files (Continued)**

48 CFR 31.201-2, *Determining allowability* states in part:

“...(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:**

Failure of management to effectively control its human resource function can result in the hiring of unqualified employees who may not have the skill set necessary for which they are being funded by a federal agency. Additionally, failure to maintain all personnel records to support decisions for hiring, compensation, leave, promotion and termination can potentially result in questioned personnel costs and give the appearance of fraud.

### **Recommendation:**

We recommend that SMAD management understand the importance of providing effective controls by developing and implementing a comprehensive human resource management policy which includes all records required to be obtained, maintained and retained evidencing the employment of individuals.

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

SMAD's Responses to Findings

For the Period July 15, 2011 through February 28, 2014

Included on the following pages is SMAD's response received to the findings identified in this report. In addition to the narrative response, SMAD provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.



---

To: Mayer Hoffman McCann P.C.  
2301 Dupont Drive, Suite 200  
Irvine, California 92612  
U.S.A.

Kabul, August 8, 2014  
Kabul, Assad 17, 1393

**Ref.: National Museum Afghanistan | S-AF-200-11-CA026 | Response to Final Report**

**SMAD's Management Responses to the Final Audit Report**  
**prepared by MHM and provided on July 17, 2014**

**Summary of SMAD Management Responses to Findings**

SMAD's Management herewith responds to listed findings as stated by the auditors in the final report. SMAD provided for all findings detailed documentation, the rationale and logic that led to the treatment, or in few cases, error of treatment. Findings which SMAD's Management concurs with are clearly indicated in the responses. It is worth noticing that SMAD had to repeatedly insist that some findings, as described by the auditors, to be re-assessed and to review again documentations and explanations provided by SMAD Management. Some statements by the auditors clearly show incorrect conclusions drawn from the field work. Unfortunately, some of these incorrect conclusions are still listed in this final report, to which SMAD responds herewith again in detail. This redundant task is partially reason for the lengthy process to conclude the audit.

Further, incorrect conclusions lead the auditors to express repeatedly the suspicious act of fraud or mismanagement. Under finding 2014-5, the auditors even suggest that SMAD may be involved in falsifying vendor's invoices for the purchase of two containers. SMAD Management strongly rejects this suggestion which is, in SMAD's opinion, based on incorrect conclusions and unverified information provided by the subcontracted audit firm during the field work. While SMAD fully understands the purpose of this audit and has shown its full cooperation, it is unclear as to why certain collected information has not been verified with either SMAD or an alternative party. In some cases, documentation provided by SMAD is also either not entirely or only partially reflected in the auditor's final report, leading to above described incorrect conclusions. However, SMAD is of the opinion that none of the listed findings can be categorized as an act of negligence or mismanagement. Considering the complexity of the Cooperative Agreement and the overall success of achieved objectives, the few concurred errors are negligible and SMAD Management agreed to correct those errors. To the extent possible, SMAD's Management consulted with the assigned DoS representatives wherever required. This is demonstrated with the comprehensive amount of documented communication with DoS representatives that took place throughout the entire period of the

Cooperative Agreement and the clear reporting structure for both the progress and financial quarterly reports. At all points, a transparent cooperation was established between SMAD and DoS representatives providing a true reflection of the achievements under this Cooperative Agreement. The nature of the Cooperative Agreement in context of today's Afghanistan environment required some modification and changes to individual tasks which were ultimately all successfully responded to and implemented by SMAD to the full satisfaction of DoS and relevant stakeholders.

For those findings listed in this report which SMAD rejects, SMAD's Management provides full explanation and, in some cases, attaches further documentation to back up the provided response. The purpose of these detailed responses is to provide a true reflection of general applicable conditions and agreements under this Cooperative Agreement as further approved by relevant DoS representatives. SMAD's Management is of the opinion that the field work conducted in Kabul, which led to many incorrect conclusions, could have been better organized in regards to processing and evaluating provided documentations by SMAD's Management. As shown with the example above, some information relevant for findings has not been shared, communicated or verified with SMAD's authorized personnel or related other parties. The following responses by SMAD's Management shall therefore clarify all findings to ensure a true reflection.

### **Response to 2014-1: Unsupported Compensation**

#### **(1) Additional Work \$1,264,662**

The auditor correctly states in the final report that the subject of required but non-allocable resources in the Afghan human resource market for the Cooperative Agreement related to the Project Management project has been intensively discussed with the DoS. First communication to solve this issue was initiated by SMAD Management at the start of the Cooperative Agreement. Relevant communication was established with the DoS Grant Officer Representative (GOR). However, it took until end of January 2012 before the issue could be ultimately discussed with the DOS Grant Officer (GO) and a way forward determined and agreed to. The auditor correctly states in the final report that this fact was confirmed by DoS via email in response to this audit on May 14, 2014.

During the field work of this audit, SMAD Management repeatedly explained to the auditor that not additional positions per se were assumed by the Management, but relevant work out of these positions as the vacancies could not be filled. The auditor correctly states further that SMAD's Management has proven their qualifications to execute the additional work. Based on this qualification SMAD's Management has worked exhaustingly and very efficiently in order to keep the pace of the width and complexity of the scope of the Cooperative Agreement.

The following was concluded and agreed between the parties, documented in referenced internal memo, dated February 25, 2012 (a copy of the memo was provided to the auditors during the field work):

Consequently,

1. assignments for Sr. Project Manager and Sr. Project Architect have been assigned to Program Director Sayed Zabihullah Majidi;
2. assignments for Sr. Accountant, Procurement and Contract Expert and Competition Organization Expert have been assigned to Program Director Sayed Rohullah Majidi;
3. due to this decision it was expected that the average working hours of the Program Directors will increase to more than 12 (twelve) hours per day per 7 (seven) days week, incl. Bank holidays and non-working days due to shut down based on security measure.
4. This working schedule will have to be maintained until qualified individuals are identified in order to adhere to the tight project timeline and high expectations set out for the CA and its amendment;
5. in any case, time sheets are maintained on a daily basis;

6. due to the time pressure, the amount of tasks and the complexity of the Cooperative Agreement in itself, single activities are not tracked, but milestones and adherence to timelines can be compared to the submitted project plan at any time to verify actual execution of additional assignments;
7. the Program Directors' additional monthly compensations resulting from this additional work load have been valued with maximum 4 (four) additional hours per day, even if more hours have been worked on the different subjects.
8. the entries in the financial system of the Program Directors' monthly compensations have to be reviewed and adjusted accordingly to the above referenced schedule.

Based on this agreement, it is clear that not the time sheet, but the milestone reporting is the guiding document to proof the work executed.

It is evident that it is impossible to integrate 3 (three) or 4 (four) FTEs into one FTE's schedule. Consequently, the above listed agreements were concluded and the relevant work resulting out of the different positions taken over by SMAD's Management, and not full responsibilities of 5 additional FTEs. Therefore the comparison between times spent on the project totaling 7 FTE for 2 FTE is not logic, not feasible, and thus not comprehensible. Based on the auditor's calculation, which SMAD's Management could not verify, FTE of 1.73 and 1.88 respectively reconfirms though that on average more than 12 (twelve) hours per day must have been worked.

It was agreed to maintain time sheets on a daily basis, which was done accurately and provided to the auditors. Most importantly, to understand the documentation process of work evidence in context of exposure to time pressure, immense additional workload and operation assurance in a dysfunctional environment, such as existing in Afghanistan, it was agreed to in unison to justify all work performed next to the time sheets referenced, mainly through the evidence of milestone reporting. These milestones are all documented and shared with DoS through the quarterly reports and weekly conference calls with the GOR.

In order to control the costs and to avoid an overrun of the budget, the key agreement was to limit additional work compensation to 4 (four) hours per day. The auditor correctly confirmed that the Management has worked, additionally to the regular working hours, more than 4 (four) hours per day. This arrangement also reflects the commitment of SMAD's Management from start of the Cooperative Agreement to prevent budget overruns and to provide a fair, in line with applicable regulations, incl. individual agreements, and appropriate treatment of the services rendered.

### **(2) Additional Work \$76,000**

The amount in question is of the same character as the compensation for additional work outlined under (1). In the 'General Ledger' (GL) the monthly values were registered separately after the Management requested to run an internal audit and corrected calculation mistakes identified but as well the adoptions resulting out of (1) 8. The auditor is fully aware of this audit and the inherent corrections and it was explicitly explained to the auditor why SMAD's Management registered the amounts separately (i.e., for clear separation between regular compensation and additional work). SMAD's Management is unclear as to why the auditor has retaken this topic again as a separate topic and not subordinated under (1).

### **(3) Final Clarification**

SMAD's Management is fully committed to the Cooperative Agreement and U.S. Government regulations affecting the Cooperative Agreement. SMAD's Management demonstrated during the audit that it adheres to these regulations. Following its responsibility, SMAD's Management has aligned and received approval from DoS for the documentation and proof of actual work executed according to the project scopes. All figures are based on the Cooperative Agreement's budgets and adoptions thereafter agreed with the responsible on behalf of DoS. In this specific case there was, and there is, at no time any inadequate internal control that may raise the appearance or perception of fraud under the Agreement. SMAD's Management strongly objects to this auditor's observation as it does not reflect the mutually accepted agreements made between DoS and SMAD in course of the Cooperative Agreement implementation.

The compensation is not to be considered as one for fully taking over additional vacancies. As mentioned previously, this is simply physically not possible. However, due to the necessity and available capacity of SMAD's Management, tasks subordinated under different roles (terms of reference) and relevant for the successful execution of the



Cooperative Agreement were taken over by SMAD's Management. Due to the time pressure and amount of workload accepted, it is clear that not all details of work performed could have been followed up without damaging the successful execution of the Cooperative Agreement. Consequently SMAD's Management recorded all milestones completed as agreed to be sufficient evidence for work executed and completed. This treatment allows actually for no room for suspicion of fraud as less work than performed has been offset and, in addition, no compensation for actually spent time for the implementation of individual tasks charged to the Cooperative Agreement.

At the time of changing the time sheets in the year 2013 to break down the number of hours by project, SMAD's Management performed only tasks of its original duties and no additional work. SMAD's management explained to the auditor that the execution of additional work load in question ended with the reporting of the milestone "determination of design competition winner" in July 2012.

Regarding the referenced criteria by the auditors (48 CFR), compensation for personal service has been for work performed by SMAD's Management. The total compensation is reasonable for the work performed, taking into consideration that 4 (four) hours maximum were calculated for compensation although significantly more hours were worked as further documented in the provided time sheets in the form agreed to with DoS.

SMAD's Management has completely fulfilled its responsibility for accounting for costs appropriately and maintaining records as agreed with the DoS and considering the circumstances of the Cooperative Agreement. SMAD's management presented all maintained records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles for this Cooperative Agreement. As confirmed by the auditor, the contracting officer allowed all claimed cost. Hand in hand with this decision, the risk of possible lack of separation of duties had to be mitigated which may result in inadequate internal controls that may raise the appearance or perception of fraud under the Agreement. As the auditor states in this final report his/ her qualified opinion on page 11, the SPFS represents fairly in all material aspects, the respective revenue received and costs incurred under this Cooperative Agreement. According to the auditor's further observation, this specific matter though represents amongst others an exception of his observation. SMAD's Management expects with this repeated explanation provided that the treatment of additional work load and related agreements with DoS are fully transparent by now, and subordinated under the auditor's qualified opinion of a fairly treatment.

### **Response to 2014-2: Insufficient documentation to support business use of vehicles**

The registration of vehicles through the Directors was assessed to be the most suitable solution to process the registration. With the purchase of vehicles, buyers in Afghanistan are required to register a vehicle with an individual or a legal entity. In addition, this registered individual/ legal entity requires a second person as a guarantor. Both, individual/ legal entity and the guarantor are then registered. The reason for this practice is related to the increased security restrictions in Afghanistan where vehicles are often used for criminal acts or used by terrorist organizations. The registered individuals are legally liable in case vehicles registered under their names are involved in any criminal or terrorist act. SMAD could have registered the two referenced vehicles with the company, but this would have required a much longer administrative process – and the vehicles were urgently needed. Under the given time constraints of the Cooperative Agreement, this lengthy process seemed to be not in favor of the operation. Ultimately, this was also assessed as to be not a viable solution as it is generally very difficult to present a guarantor (second individual) for a registered company. Individuals, acting as a guarantor to a company, are difficult to identify as the associated risk with a company is much higher than being a guarantor for a known individual. SMAD, as a small private company, was hence not able to present a guarantor for the company, but for the individuals which are the two Directors. The only practical solution was therefore to register the two vehicles respectively under the names of the two Directors who both have a second individual listed as their guarantor. As the auditor correctly mentions in this final report, both Directors have signed a statement that although the referenced vehicles are registered under their names, they are 100% property of the company SMAD. This document was provided to the auditor upon request. The two referenced vehicles were exclusively used for the operation under this Cooperative

Agreement; hence a documentation of the fuel log was executed exclusively. As such, the two vehicles have been used by the company's operational and technical team at a minimum level allowing SMAD to enable both teams of the independent projects to operate simultaneously. This set up of operation and use of vehicles was anticipated from the start of the Cooperative Agreement as included in the original proposal provided by SMAD.

### **Response to 2014-3: Documentation was not provided to support procurement efforts within the Contractual and Equipment cost categories**

#### **(1) Contractual**

The setup of the required IT system had to be implemented to the soonest possible time at project kick off in July 2011 to allow a functional operational infrastructure as required for the Cooperative Agreement, initially only foreseen for NMA\_PM. Without this infrastructure, no required resource would have been able to perform according to the needs of the Cooperative Agreement. In order to meet the tight deadlines and the load of tasks, a suitable IT operating platform had to be first elaborated by SMAD and then further technically adjusted by a specialized IT individual. The Cooperative Agreement conditions did not allow failing in this essential task. The process included technical discussions and internal alignments to ensure that the selected system would meet the objectives. As the IT setup required also an intensive planning period, which the later selected contractor offered free of cost, and internal revisions to ensure the selected system is efficient and sustainable, the planning for this sensitive system was already too advanced. Using possible information that was custom made and developed by a third party, cannot be later used as a reference for other contractors as this represents an unethical business practice and not in line with SMAD's ethical understanding.

After several technical discussions and price negotiations to ensure that competitive market rates were obtained, SMAD's Management selected the provider as specific technical details were already discussed and aligned. By this stage, the provider had gained important insights of the system's requirements. Valuable time critical to the Cooperative Agreement was at risk to be lost and after SMAD ensured that competitive costs were negotiated, the contractor in question was selected. Exception to "SMAD's Operations Procurement Policies and Procedures Manual, Section D.2.2, Monetary Threshold" was applied:

- Exceptions may be applied in specific cases only, and require approval of the PB

SMAD's Management ensured at all times that competitive rates and implementation costs were established. SMAD's Management expects with this repeated explanation provided that the applied policy and procedure of contracting this service are fully transparent by now, and subordinated under the auditor's qualified opinion of a fairly treatment.

#### **(2) Equipment Costs**

The reported amount of \$46,629 is the sum of the following items:

- a. cost for IS Image Station (\$35,629)
- b. cost for Robotic Package Accessories (\$11,000)

SMAD provided a memo with the official response related to both items, dated 2014/05/12. The memo is titled '2012\_01\_31 MEMO\_NMA\_PM Equipment Total Station' and was provided to the auditors in the course of the field work. The memo states *"...The equipment is not available on the Afghan market so that it was purchased from outside of Afghanistan. Logical market to search for this equipment was the UAE where the same with the referenced specifications is distributed exclusively by one identified supplier. After careful review of the offer, which included gratis training for our staff, it was decided to purchase this equipment from this supplier."*

According to SMAD standard procurement policy required quotation were not possible to obtain and waived accordingly after exception was determined and approved according to SMAD's Procurement Policy. Relevant and applied excerpt of SMAD's Operations Procurement Policies and Procedures Manual, Section D.2.2, Monetary Threshold

- Exceptions may be applied in specific cases only, and require approval of the PB

The exception was determined because referenced items represent specific engineering equipment necessary to execute the Cooperative Agreement's objectives. As such, quality, cost effectiveness and competitive rates were always evaluated by SMAD's Management according to its policies and procedures. The above referenced two items represent an approved exception of SMAD's standard procurement policy with very cautious treatment as repeatedly explained and evidence provided to the auditor.

In general, SMAD's Management demonstrated that established procurement policies have been effectively applied by its staff, given in particular the number of procurements being correctly processed and received the auditor's qualified opinion.

SMAD's Management expects with this repeated explanation provided that the applied treatment of procuring these two items are fully transparent by now, and subordinated under the auditor's qualified opinion of a fairly treatment.

#### **Response to 2014-4: Taxes charged in error to the Agreement**

This error occurred once and only in the initial phase of the Cooperative Agreement during which the workload was immense. Further, parts of the Cooperative Agreement's specific set up were a new addition to SMAD's regular operation and required to be further optimized. The auditor's finding is correct, however this is the only case occurred in the course of the entire Cooperative Agreement. This fact demonstrates that there is certainly no lack of management oversight over preparation of invoices which may result in unallowable costs being included in the invoiced amount. Considering the numerous contracts signed in the course of the Cooperative Agreement, the number of contracts affected by this observation is in absolute terms insignificant and the fact that all these numerous contracts were managed according to the company's billing practice without any further objection of the auditor proves that the management oversight over preparation is efficiently maintained. Furthermore, procedures are already developed to ensure SMAD's Management reviews all billings prior to issuance to ensure only allowable costs have been incurred. SMAD's Management agrees that the taxes charged are an error, which has to be corrected. This was confirmed in several previous discussions with the auditors and SMAD's Management concurred with this finding.

#### **Response to 2014-5: Excessive costs charged for the purchase of two containers**

For the purchase of the containers, SMAD thoroughly utilized the policy to be applied for procurement as the auditor confirms in this report. After the comparison analysis of the received quotation was established, SMAD identified that the cost of \$6,500 represents a fair price on the current market in May 2012 for the good and service required. The main reason to finally procure the two containers from two separate vendors was to reduce the tax burden as amounts below \$10,000 are free of additional tax in Afghanistan. Being strongly cost driven to prevent potential budget overruns, SMAD's Management decided to purchase the container with the same characteristics and services from the second vendor without running another cost comparison as there was no difference in price and quality. It is very difficult to understand why the auditor quotes SMAD's procurement policies incompletely, leaving out essential details. On page 36 of the final report, the paragraph related to SMAD's policy of minor procurements is quoted in parts only. However, the policy of possible exception of the standard policy is not quoted here, but is relevant as the procurement process was based upon it:

- Exceptions may be applied in specific cases only, and require approval of the PB

This exception has been applied in this specific case, hence the policy correctly applied. The auditor's conclusion is therefore incorrect and misleading in its description.

In regards to the auditor's statement that a vendor has been contacted during the field work by the subcontracted audit firm and that this vendor was not able to recall the sale of the container to SMAD in May 2012, SMAD was not informed about this enquiry during the field work to help clarifying this statement, nor was this information verified. As a result of this statement, the auditor was ultimately led to the suspicious fact expressed in this report which SMAD's Management strongly objects. In order to verify this statement, SMAD Management contacted the original vendor after this statement was mentioned and requested the vendor to provide an official attestation of the sale of the containers in question. SMAD obtained the two statements in writing which are attached in **Appendix 1** (scan of original vendor's attestation in Dari and its translation into English) to this response. In these statements both vendors confirm the following:

1. One 20 ft conics container equipped with room, toilets, air-condition, electricity system and including transportation and translocation has been sold at \$6,500 (325,000 AFS) to SMAD on May 20<sup>th</sup> 2012 (1391/02/31);
2. At least one vendor was never contacted by anyone regarding the sale of this conics container in the past;
3. Both vendors included their current contact details in case the need arises to be contacted to reconfirm their statements.

It is unclear to SMAD's Management how the subcontracted audit firm arrived at this statement during the field works in Kabul. Further, the subcontracted audit firm did also not consider during the investigation to obtain a quotation for the same good and services provided and as of the market price valid two years ago, i.e. May 2012, and not as the one obtained for the year 2014. Within this time period of two years, Afghanistan's economy and market prices changed significantly. Furthermore, the quotation the subcontracted audit firm provided does not state that transportation and installation is included in the quotation. It is as well relevant to mention that security clearance from police department are required in any kind of such kind of transportation, which requires additional time effort and additional cost. SMAD negotiated an all-inclusive price, which kept this responsibility to obtain all required clearance from relevant authorities with the suppliers. In addition, the quotation collected by the subcontracted audit firm counts for a regular container only. In terms of quality, the containers purchased by SMAD are of higher quality (jumbo model). Furthermore, in this price included was the suppliers' service to provide the connection of the container to the electrical and septic system on site. The auditor does not reflect these repeatedly provided explanations by SMAD's Management in the final report.

As SMAD's Management believes in minimizing the possible financial and non-financial risks, the cost of purchasing the containers was also previously estimated by the assigned project team member during the budget preparation phase for the site set up. Quantities and costs for all required material for the site set up were prepared and estimated by the assigned project team member. This estimate allowed for the allocation of the total required budget related to this task. SMAD's Management provided all relevant documents to the subcontracted audit firm during the field work to provide evidence that the entire process was controlled from the beginning and no room for potential fraud remained. Among those documents, the 'Material Order Form' can be found, which lists the required container with an estimate of \$6,500 per item. This clearly shows that at the time of estimation, prior to purchase, the assigned project team member already estimated this current market price for one container of the characteristics and services required.

SMAD's Management has fully complied with criteria 48 CFR referenced by the auditor 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. Further, SMAD's Management has provided evidence that the costs in question are in its nature and

amount not exceeding the amount which would be incurred by a prudent person in the conduct of competitive business.

It should be also noted that in an unstable economy, such as in Afghanistan, business operations close within a very short period of time. For many months now, most, if not all, businesses in Afghanistan, have suffered from consequences of the withdrawal of international forces and, most recently, from the lengthy presidential election process.

The conclusions drawn by the auditor, including the opinion of the subcontracted audit firm, are not acceptable and incorrect. SMAD's Management is of the opinion that the provided information by the subcontracted audit firm does not reflect the required level of accuracy for the market analysis and that reported information regarding the vendor was not verified adequately.

SMAD's Management expects with this repeated explanation and additional evidence provided that the applied treatment of procuring these two items are fully transparent by now, and subordinated under the auditor's qualified opinion of a fairly treatment.

### **Response to 2014-6: Excess depreciation expense charged to the Agreement**

SMAD's company assets in question were used for the Cooperative Agreement during the performance of the Cooperative Agreement's work. These were acquired prior to the award of the Cooperative Agreement. After depreciation, SMAD's Management considered the book value as of July 2011 as costs to be charged directly to the Cooperative Agreement. SMAD's opinion and treatment of assets differ in this case from the assessment of the auditor. However, SMAD's Management concurs with the treatment proposed by the auditor and confirmed this previously.

### **Response to 2014-7: Missing Timesheets for Personnel**

In order to prove that these staff did perform their duties according to their contract, SMAD's Management obtained a written attestation from each employee. Each attestation in Dari includes the translation to English as included in **Appendix 2**. These seven individual attestations confirm that the referenced support staff did perform assigned duties for a period of 8 (eight) hours per day during the period January 1 to February 28, 2014. In addition, the employee agreed to be contacted directly, if further questions remain.

SMAD Management therefore rejects this finding by the auditor and considers this finding to be closed with the submission of the individual seven attestations satisfying the need to provide adequate documentation to evidence the hours worked by the seven individuals for the months of January 2014 and February 2014.

### **Response to 2014-8: Excess overhead charged to the Agreement**

This observation of the auditor is correct. However, considering the importance of the Cooperative Agreement for SMAD and the total budget of the Cooperative Agreement, the amount identified represents an insignificant and actually immaterial amount. Moreover, it shows that in fact no material involvement with other projects occurred in the course of the execution of the Cooperative Agreement. In general audit terms and under restriction of commensurability this finding with the low amount involved is not to qualify as a weakness of processes, policies and procedures, but probably general accepted business practice. Nonetheless, this amount represents an ineligible cost according to the regulations affecting the Cooperative Agreement, and SMAD's Management concurs with the auditor's finding as communicated previously.

**Response to 2014-9: Excessive Cash Payments**

Payments in cash in a dysfunctional and widely illiterate business environment, such as the one existing in Afghanistan, require a necessarily increased willingness to pay in cash to conduct any business. There is a clear motivation why SMAD's Management has established rigorous cash payment policies, where a need of cash payment has to be documented and approved, a cash memo completed and signed off by respecting segregation of duties. To complete the process, an acknowledgement of receipt form is being signed by the vendor and then archived accordingly. In no case the auditor identified any weakness in the process described, only the amount of the cash payments were observed. Except for two cases, for which the acknowledgement of receipt only was not processed, all evidence was provided according to the policy. This is not considered as a critical error as previous control mechanisms were in place. If those kinds of errors do not occur in a critical mass and repeatedly, but exceptionally, the entire established process cannot be questioned.

Many business partners in Afghanistan have often no bank account and do not accept checks, in particular car dealers or illiterate construction worker, because they only trust cash. Considering the total budget of the Cooperative Agreement and the peculiarity of the Afghan business environment it is fair to say that the number and amounts in question are relatively small, and the exceptions occurred in SMAD's cash payment transactions have not increased the risk of cash being misappropriated. At no time this provides a case for the appearance of fraud, as adequate internal controls and reconciliations were exercised throughout the each individual process and the Cooperative Agreement. The auditor clearly states that all relevant documents were presented and required signatures were identified on the relevant cash requests and payment documents. This underlines SMAD's Cash Handling Policy where adequate control over all cash receipts and disbursements are highlighted to be a vital element of the company's internal accounting policy.

SMAD's Management is fully aware of the risks and is trying to minimize at all times any cash payment, in particular avoiding any possibility of potential fraud but as well regarding the threat to life of those employees carrying cash around to close the business transaction. However, the reality is another one and any responsible grantee has to consider the generally accepted business practices even though representing a deviation from established practices as reasonable because it is simply unavoidable. SMAD's Management recognized this and has therefore put effective control mechanisms in place.

SMAD's Management considers the auditor's recommendation as disproportional having identified two of numerous cases where the cash receipt could not be shown, but the process otherwise fully controlled. As verified by the auditor procedures to ensure that the reason for the cash payment is documented, proper approvals are obtained, an acknowledgement of receipt form are being signed by the vendor and internal controls implemented as required. SMAD's Management continues to minimize, and where possible, completely eliminate any cash payment in excess of its petty cash limits.

**Response to 2014-10: various documents missing from personnel files**

SMAD's Management provided a sample of one job announcement on 2014/05/12. As explained previously to the auditors, all required technical job announcements for positions in addition to the already existing personnel in place by start of the Cooperative Agreement, were posted on the popular Afghan recruitment website [www.jobs.af](http://www.jobs.af). It is critical to understand that a large number of the technical staff was already in formal employment when SMAD submitted its proposal for the Cooperative Agreement. SMAD received a large number of not suitable or unqualified applications as result of the job announcements placed on the recruitment website referenced. As candidates with a certain personal and professional skill set, matching the company's ethics, values and professional standards, were aimed to be recruited, SMAD did also consider predominantly applications through personal recommendations by the professional network accessible by SMAD. For those candidates, application letters were not explicitly required. Written test papers were not required during interviews as technical experience was a priority. This was explored to

the extent possible during the interviews with individual candidates and internal notes taken. Those notes were then reviewed by the senior management and, in case assessed as suitable, a second round of interview with the same candidate took place. In case of a successful candidate, SMAD does not issue an appointment letter, but discusses the possible start of employment with the successful candidate. Once the date is agreed to, the successful candidate receives all contractual documents for review. If not further questions are being discussed, all contractual documents are then signed immediately which act as an evidence for both parties that an employment engagement is wanted and consequently in place. Human Resource policies and standard operation procedures are explicitly in place to make sure the processes described above are known to the responsible employees and adhered to at all time.

SMAD's Management is unclear which performance evaluations are described as not being present. SMAD responded to this enquiry on 2014/05/12 that for the two Directors the performance evaluation cannot be established as their performance can only be measured by the successful implementation of the Cooperative Agreement's objectives. According to SMAD's documentation, leave records of employees are complete. As for the two Directors, no leave records were used as leave was compensated with the time worked more than the agreed additional working time, incl. working during weekends, bank holidays and days of forced shutdown caused by security constraints.

SMAD's Management is of the opinion that the auditor's statement that by some missing personnel files the suspicion of fraud is raised, is absolutely invalid. SMAD has to its best knowledge updated and completed the missing personnel files where possible.

### **Request from SMAD's Management in regards to future publication**

Past experience shows that Afghanistan remains a very challenging environment to successfully implement projects. Ultimately, this success is the true measure for programs in Afghanistan. SMAD has to this date successfully implemented several projects in Afghanistan, protecting at all times the stakeholder's interest and safety and meeting the project's objectives. SMAD operated in the past with a low profile strategy as the implementation of projects requires a close contact and exchange with locals. This approach has been proven to be the most suitable for SMAD's operations in Afghanistan. Positive relationships are established with all counter parts from the beginning – those positive relationships do also include complex and sometimes complicated planning or project partners. Nonetheless, the safety and security of SMAD and its personnel is at all times paramount.

As indicated to the auditor by email, SMAD has experienced severe complications to its operation since SIGAR published its first report in April 2014 which mentions SMAD's engagement for this Cooperative Agreement with DoS and the US Dollar amount received for the CA. The business community in Afghanistan is at points very competitive and successful companies are well known. The main subcontractor for the works related to the 'External Security Upgrade' had clearly access to the sensitive financial data published in the SIGAR report which led the subcontractor to file a legal claim against SMAD. The subcontractor mentions in its legal claim that SMAD has received a large amount of money from the U.S. Embassy through the Ministry of Information and Culture. This statement by the subcontractor is wrong, but shows that the published information by SIGAR is being used against SMAD. It should be noted that the subcontractor submitted the request for additional costs three weeks after the SIGAR report was published, but did not mention this claim in its previously submitted final financial report. The subcontractor's claim and legal pressure put on SMAD are very similar to extortion techniques and SMAD's Management is in addition now concerned about the safety of its employees because of this aggressive behavior.

The claim for additional costs as described by the subcontractor has been at no point in time approved by SMAD and – in fact - represents a contract violation between SMAD and the subcontractor. All this was communicated several times with the subcontractor who still insists in having this additional claim solved through the Afghan legal system. Since the claim was filed against SMAD in late July 2014, SMAD's business operation has suffered immensely as most key resources have been occupied with collecting the relevant contractual data and preparing an official response to the legal department.

SMAD clearly links these severe cutbacks in its business operation to the SIGAR publication mentioned before. Further, the current hostile environment, as found in today's Afghanistan, clearly requires preventive measurements. SMAD fully understands the objective of the SIGAR publication, but assesses the current business environment as dangerous, especially with the publication of financial data. By this, SMAD and its entire staff, is unnecessarily exposed to risks which may not only lead to legal claims, as shown, but potentially to threat of life. Cases for extortion and kidnapping of individuals are well known in Afghanistan and occur unfortunately frequently.

**SMAD's Management explicitly requests therefore to refrain completely from any publication of financial data related to the audit of this Cooperative Agreement. This would put SMAD repeatedly in a vulnerable position with consequences that are beyond of SMAD's control and a high potential for threat to life. It is further requested to communicate the information related to this audit with SMAD's Management prior to any publication.**



**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Auditors' Rebuttal to SMAD's Responses to Findings

For the Period July 15, 2011 through February 28, 2014

SMAD provided general management responses to the audit and audit report, as well as specific disagreements to 8 out of the 10 findings presented in this report. In addition, SMAD included a request in regard to future publication of reports. We have reviewed its management responses and offer the following rebuttals to the general management responses, as well as each of the findings to which it disagreed.

**General Management Responses and Auditors' Rebuttal**

In general, SMAD indicated that it had provided detailed documentation to our auditors during the audit, including the rationale and logic for all costs incurred. It is of the opinion that the documentation provided would result in the removal of the findings, and that the report does not take into account all of the documentation provided.

Throughout the audit, all documentation that was provided for review was considered and evaluated. In some instances, documentation that was provided by SMAD did not represent sufficient, competent evidence that could be considered. When documentation provided does not fully support the costs claimed, or evidence that compliance to specific requirements occurred, the result is a finding and, in some cases, related questioned costs.

**Management Responses and Auditors' Rebuttal to Each Specific Finding****2014-1: Unsupported Compensation**

SMAD disagrees with various components of this finding as follows:

**Compensation – \$1,264,662**

SMAD disagrees with this portion of the finding by stating that the positions assumed by the 2 Directors cannot be measured and tracked by hours worked as indicated on timesheets, but rather by the milestones and final outcome of the work performed. SMAD agrees that it is impossible to integrate 3 or 4 full-time equivalents (FTEs) into 1 FTE's schedule. This agreement is the essence of the finding. Milestones and the final outcome of the work performed are acceptable measures when evaluating the program, but not acceptable measures when evaluating the costs incurred under the Agreement. The Agreement allows for only actual costs incurred to be billed. Actual costs incurred for personnel/staff salaries are supported by timesheets of hours actually worked. If those actual hours worked only support 3.61 FTEs, yet 7.00 FTEs were actually billed to the DOS, then the DOS was overbilled, and therefore overpaid for the work performed. This portion of our finding and recommendation remains unchanged.

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Auditor's Rebuttal to SMAD's Responses to Findings

(Continued)

**Extra Compensation – \$76,000**

SMAD disagrees with this portion of the finding indicating that the nature of the amounts paid is the same as compensation. However, as indicated in the finding, there was no documentation provided to support what services were performed to warrant the extra compensation. In the absence of sufficient, competent evidential matter, this portion of our finding and recommendation remains unchanged.

**2014-2: Personal Use of Vehicles**

SMAD disagrees with the finding, stating that that the vehicles were registered under the Directors' names instead of the company in order to avoid a complicated and lengthy registration process as the vehicles were urgently needed. SMAD also indicated that it had signed a statement when the vehicles were purchased indicating that they would be owned 100% by the company. In addition, a fuel log was maintained for both vehicles. We acknowledge that the registration process for vehicles may be different and more difficult in Afghanistan than in the United States. The memo that was provided indicating the vehicles were used 100% for the business was dated June 30, 2011, which is prior to the period of performance of the Agreement, and is written in the past tense as it refers to "purchased" vehicles. The documentation for the actual purchase of the vehicles was dated October 10, 2011 and March 8, 2012. If anything, this memo only indicates the intention to use the vehicles for only business purposes and does not reflect how the vehicles were actually used. As the Agreement allows for payment of costs actually incurred, there should have been evidence indicating the actual number of kilometers/miles driven for each trip and the business purpose of each trip. If the vehicles were used to commute from a residence to a business location, then these miles are not company-related, but are personal miles which should not be charged to the Agreement. The fuel log provided only tracks when the vehicles were refueled and did not contain any other information that clearly demonstrates the vehicles were used exclusively by the company. Our finding and recommendation remains unchanged.

**2014-3: Lack of Adherence to Procurement Procedures****Contractual**

SMAD disagrees with the finding. For the procurement under the Contractual cost category, SMAD indicated a competitive process was not used due to time constraints. It also indicated that the price was competitive as SMAD had several price negotiations with the vendor. This explanation was not documented in any of the files provided at the time the audit fieldwork was conducted. The explanation was only provided as testimonial evidence in response to the questioned costs raised during the audit. We acknowledge that SMAD's Operations Procurement Policies and Procedures Manual does allow for exceptions to the competitive bid process in certain circumstances, and require the approval of the Partner Board (PB). We would expect that if deviations to policies occurred, that SMAD would have the reasons behind the need or the deviation to be fully documented. Additionally, if a competitive bid

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Auditor's Rebuttal to SMAD's Responses to Findings

(Continued)

process was not used, then we would expect that the documentation of the deviation from the process would include information on cost so that the PB would be fully informed when making the decision to grant the deviation from the process. None of this was documented or provided. Additionally, there was no documentation of the PB's approval of the deviation. This portion of our finding and recommendation remains unchanged.

**Equipment**

For the procurements under the Equipment cost category, SMAD indicated that its internal memo of January 31, 2012 explains the sole source justification. The memo we were provided is dated January 29, 2012, and we believe this is the same memo that SMAD is referring to as the January 31, 2012 memo. This internal memo explains why the cost of the equipment was significantly greater than the amount budgeted, and that the equipment is not available in the Afghan market. The image station was purchased on December 7, 2011 and the robotic arm was purchased on August 7, 2012. What is not evident is why the memo was written more than one month after the purchase of the image station and more than six months prior to the purchase of the robotic arm. SMAD indicates in its response that its Operations Procurement Policies and Procedures Manual does allow for exceptions to the competitive bid process in certain circumstances, and that these exceptions require approval of the PB. No documentation was provided to indicate that the PB approved a deviation from the competitive procurement process. This portion of our finding and recommendation remains unchanged.

SMAD disagrees with the finding. It had provided an internal memo dated 01/31/2012 which served as a sole source justification. However, it cannot explain why the waiver was dated more than a month after the purchase of the equipment, and more than seven months before the purchase of the robotic package accessories. The memo was not included in the procurement documentation provided for audit, but was provided only after an indication was made that the costs were going to be questioned. Providing a memo only after the issue was raised and having the memo dated not in line with the procurement resulted in inadequate internal controls that can raise the appearance or perception of fraud under the Agreement. Our finding and recommendation remains unchanged.

**2014-4: Taxes Charged in Error**

SMAD partially disagrees with the finding, stating that although the taxes were charged in error, it does not believe there is a lack of management oversight when compared to the numerous contracts signed during the course of the Agreement for which no other exceptions were noted. However, our testing of 16 separate transactions charged to the Contractual cost category disclosed 5 instances where taxes were charged in error. These errors did occur during the early months of the Agreement, specifically in September and October 2011, and we did not see evidence of these errors after October 2011. Given the high error rate, our finding and recommendation remains unchanged.

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Auditor's Rebuttal to SMAD's Responses to Findings

(Continued)

**2014-5: Excessive Cost for Containers**

SMAD disagrees with the finding, stating that the reason for purchasing the containers from two different vendors was to minimize the tax burden. It indicated that a competitive process was not followed for the second vendor was that the price was the same as that of the first vendor. SMAD indicates this is allowable under its Operations Procurement Policies and Procedures Manual as exceptions to competitive procurement can occur with the approval of the PB. SMAD also indicated that it had followed up with both vendors after the exit conference and obtained attestations from each vendor to prove that the purchase existed. Finally, SMAD does not believe the quotation obtained by the auditor in 2014 is comparable to the price of the two containers purchased due to changes in the economy, additional delivery and installation services included, as well as the quality of the containers.

No documentation was provided to support the rationale for not purchasing the containers from only one vendor. As required by SMAD's policies, if a competitive bid process is not undertaken, then this is an exception for which approval is required from the PB. No evidence of this approval was provided for our review. We would expect that in order for the PB to make an informed decision, adequate documentation would have been presented to the PB to demonstrate that purchasing from two different vendors would minimize SMAD's tax burden. Again, no evidence of a review and approval by the PB was provided.

SMAD provided copies of the attestations, written in Dari and translated to English, it obtained from the two vendors which indicate that the containers were purchased by SMAD. In order to check the validity of the attestations, we contacted both of the companies. For Toor Jan and Inayat Ullah Container Seller, our subcontractor spoke with three different individuals. One stated that they had been selling containers for 10 years at prices ranging from \$1,800 to \$12,000, but does not remember whether or not a container was sold to SMAD. This statement is now different than when our subcontractor spoke to this same individual during the audit at which time he indicated the company had never sold a container to SMAD. The second individual our subcontractor spoke with confirmed the attestation. The third individual stated he had no knowledge of the transaction. For Noori Sons Conics Maker & Container Seller, our subcontractor spoke with one individual who confirmed the attestation. During the fieldwork phase of the audit, we were not able to contact Noori Sons Conics Maker & Container Seller via telephone. With the attestation, we were provided with updated phone numbers and were now able to contact the company. We presented SMAD with these issues included in this finding on May 7, 2014, but SMAD did not obtain the attestations until July 5, 2014, which was more than a month after the exit conference of May 27, 2014. The exit conference represented the last date for which documentation could be provided. We are unclear as to why SMAD waited so long before it obtained attestations from the vendors.

Of note on the attestations provided, the handwriting of the attestations appears to be the same for each company, indicating that possibly the same individual wrote both attestations. Each attestation does contain a different signature. However, it is interesting to note that the signature on the attestation

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Auditor's Rebuttal to SMAD's Responses to Findings

(Continued)

for Toor Jan and Inayat Ullah Container Seller is virtually the same as the signature on the original container invoice provided for Noori Sons Conics Maker & Container Seller during the audit.

SMAD is correct in that the independent quotation of the cost of a container was obtained in 2014, and does represent the cost in 2014 dollars and not 2012 dollars. Inflation in Afghanistan, as measured by the Consumer Price Index in Afghanistan and published by the World Bank, has increased 7.6% from 2012 to 2013. Data for 2014 is not yet available. The quotation was obtained on April 30, 2014, so there were only four months of change in inflation. The quote received was for \$3,500 for one container itself. Our subcontractor was informed by the vendor that delivery, installation and security clearance would cost an additional \$300 per container. Since consumer prices have increased in Afghanistan since 2012, the independent quotation we received would be less in 2012 dollars.

Given that the attestations were obtained and provided after the draft report was issued, the similarity in the handwriting on the attestations and the inconsistencies with the signatures between the companies, we are concerned as to the validity of this evidence. Additionally, as the quote obtained during the course of the audit is for a container similar in nature to that acquired by SMAD, and that consumer prices in Afghanistan have increased since 2012, we maintain that had SMAD paid more than it should have for the purchase of the containers.

**2014-7: Missing Timesheets for Personnel**

SMAD disagrees with the finding indicating it had obtained an attestation on June 22, 2014 from each employee which indicates they worked 8 hours per day from January 1, 2014 through February 28, 2014. We are concerned with these attestations that were obtained months after the fact and asking the employees to recall that they in fact worked every day for 8 hours. In previous discussions with SMAD, it had indicated the employees were illiterate and thus were not able to complete and sign a timesheet. Given their illiteracy, we are concerned as to whether the employees knew what it was they were attesting to. Our finding and recommendation remains unchanged.

**2014-9: Excessive Cash Payments**

SMAD disagrees with the finding, stating that in a dysfunctional and widely illiterate environment, the practice of using cash to pay for goods and/or services is inevitable. SMAD also indicates that all necessary support, such as a cash receipt acknowledgement, as required by Organization policy, was documented with the exception of two transactions where only the cash receipt acknowledgement was not obtained. SMAD does not believe that the missing documentation constitutes a critical error and the entire established process should not be questioned.

The practice of making payments in cash in a hostile and high risk environment can significantly increase misappropriation and/or theft of funds. Minimizing the practice of cash payments is necessary

**SAYED MAJIDI ARCHITECTURE AND DESIGN**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. S-AF-200-11-CA026

Auditor's Rebuttal to SMAD's Responses to Findings

(Continued)

in order to mitigate these risks. We recognize that there are times in which this must occur. However, our finding and recommendation remains unchanged.

**2014-10: Missing Documents in Personnel Files**

SMAD disagrees with the finding, stating that many of its employees were already employees when the Agreement began. For those employees hired after the beginning of the Agreement, some were from personal recommendations. For those employees, an application letter would not be in the file. In some cases, personnel went through several interviews and were selected and hired by senior management. In the case of performance evaluations, the Directors do not have evaluations as they can only be evaluated by the successful implementation of the Agreement.

Personnel/staff salaries reported on the Special Purpose Financial Statement represent approximately 53% of the total costs incurred under the Agreement. With the majority of dollars spent in this cost category, it is imperative that SMAD demonstrate to DOS that costs are being incurred only for employees whose skill set is commensurate with their job responsibilities. If the trail of documents is lacking in the ability of SMAD to demonstrate that it hired only individuals that met the requirements for a particular job, then doubt is raised as to whether cost incurred for a particular individual is appropriate. The fact that many employees were already on board prior to the Agreement does not relieve SMAD of maintaining complete personnel files. This issue was also noted in the financial audits of SMAD for the periods ended March 31, 2012 and December 31, 2012.

**Request to Refrain from Future Publication**

As part of its response, SMAD states that it has experienced severe complications to its operation since SIGAR published its first report in April 2014. We have no idea what SMAD is referring to as SIGAR does not publish results of audits until the audits have been finalized. During April 2014, fieldwork on this audit was still in progress. SMAD can discuss with SIGAR directly regarding the ultimate publication of the final report as this is beyond the scope of our audit.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

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

## Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

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

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

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