

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-21 Financial Audit

USAID's Irrigation and Watershed Management Program in Afghanistan: Audit of Costs Incurred by Perini Management Services, Inc.

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



MARCH
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 21, 2012, the U.S. Agency for International Development (USAID) awarded a 5-year, \$129.9 million task order, with an initial obligation of \$10 million, to Perini Management Services, Inc. (PMSI) to support the Irrigation and Watershed Management Program (IWMP) in Afghanistan. The program was intended to expand and strengthen Afghan government and community-level capacity to manage water resources to improve agricultural production and productivity. The IWMP included four components: (1) governance and capacity building, (2) water supply management, (3) water demand management, and (4) Afghanistan government implementation of on-budget irrigation and watershed management activities. The task order underwent modifications, and its obligated funding decreased from \$26 million to \$16 million. Also, during implementation of the IWMP, USAID recognized performance problems and programmatic difficulties, and terminated the program for convenience.

SIGAR's financial audit, performed by Mayer Hoffman McCann P.C. (MHM) reviewed \$14,944,730 in expenditures charged to the task order from December 21, 2012, through July 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in PMSI's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether PMSI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PMSI'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, SIGAR 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.

March 2016

USAID's Irrigation and Watershed Management Program in Afghanistan: Audit of Costs Incurred by Perini Management Services, Inc.

SIGAR 16-21-FA

WHAT THE AUDIT FOUND

Overall, MHM found PMSI had good internal controls in place and had supporting documentation for most of the expenditures charged to the task order. However, MHM identified one significant deficiency in PMSI's internal controls, and five instances of noncompliance with the terms and conditions of the task order. Specifically, MHM found that PMSI did not adhere to federal regulations related to government-owned equipment. MHM also determined that PMSI could not provide supporting documentation for the transfer of damaged equipment to USAID. In addition, MHM found that PMSI did not properly monitor its subcontractors and did not require subcontractors to submit any supporting documentation with their invoices. Finally, PMSI did not adhere to federal regulations related to travel expenses, which resulted in PMSI overbilling the U.S. government.

As a result of the internal control deficiency and instances of noncompliance, MHM identified \$838 in total questioned costs, consisting of \$748 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval, and \$90 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Procurement	\$0	\$691	\$691
Subcontracts/ Consultants	\$83	\$0	\$83
Indirect Costs	■	■	■
Fixed Fee	■	■	■
Totals	\$90	\$748	\$838

MHM did not identify any prior audits, reviews, or evaluations related to PMSI's work to support the IWMP. PMSI and USAID also indicated that there were no prior audit reports issued on this program.

MHM issued an unmodified opinion on PMSI's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at USAID:

1. Determine the allowability of and recover, as appropriate, \$838 in questioned costs identified in the report.
2. Advise PMSI to address the report's one internal control finding.
3. Advise PMSI to address the report's five noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 9, 2016

The Honorable Gayle E. Smith
Administrator
U.S. Agency for International Development

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann P.C. (MHM) to audit the costs incurred by Perini Management Services, Inc. (PMSI) under a U.S. Agency for International Development (USAID) task order to support the Irrigation and Watershed Management Program in Afghanistan.¹ MHM's audit covered \$14,944,730 in expenditures charged to the task order from December 21, 2012, through July 31, 2015. Our contract with MHM required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$838 in questioned costs identified in the report.**
- 2. Advise PMSI to address the report's one internal control finding.**
- 3. Advise PMSI to address the report's five noncompliance findings.**

The results of MHM's audit are 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 government auditing standards, was not intended to enable us to express, and we do not express, an opinion on PMSI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of PMSI's internal control or compliance with the task order, 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-071)

¹ USAID awarded task order AID-306-TO-13-00002 to PMSI to support the Irrigation and Watershed Management Program in Afghanistan, which was intended to expand and strengthen Afghan government and community-level capacity to manage water resources to improve agricultural production and productivity.

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred Under
Indefinite-Quantity Contract No. 306-I-00-12-00546-00
Task Order AID-306-TO-13-00002 to support the Afghanistan Irrigation
and Watershed Management Program

For the Period December 21, 2012 through July 31, 2015

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred Under
Indefinite-Quantity Contract No. 306-I-00-12-00546-00
Task Order AID-306-TO-13-00002 to Support the Afghanistan Irrigation
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For the Period December 21, 2012 through July 31, 2015

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

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February 1, 2016

Enclosed is the final report on the financial audit of costs incurred under Indefinite-Quantity Contract No. 306-I-00-12-00546-00 Task Order AID-306-TO-13-00002 awarded by the United States Agency for International Development (USAID) to Perini Management Services, Inc. (PMSI) to support the Afghanistan Irrigation and Watershed Management Program. The audit covers the period December 21, 2012 through July 31, 2015.

The following items are included in the report:

- Summary
- Independent Auditor's Report on Special Purpose Financial Statement
- Special Purpose Financial Statement
- Notes to Special Purpose Financial Statement
- Notes to Questioned Costs Presented on Special Purpose Financial Statement
- Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Findings and Responses
- PMSI's Response to Findings

Sincerely,

Mayer Hoffman McCann P.C.

A handwritten signature in blue ink, appearing to read 'Marcus D. Davis', is written over a horizontal line.

Marcus D. Davis, CPA
Shareholder

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred Under
Indefinite-Quantity Contract No. 306-I-00-12-00546-00
Task Order AID-306-TO-13-00002 to Support the Afghanistan Irrigation
and Watershed Management Program

For the Period December 21, 2012 through July 31, 2015

Background

On November 9, 2011, the United States Agency for International Development (USAID) awarded Multiple Award Indefinite-Quantity Contract (IQC) No. 306-I-00-12-00546-00 to Perini Management Services, Inc. (PMSI) in support of USAID energy and water projects in Afghanistan with an anticipated maximum combined contract ceiling of \$750,000,000. On December 21, 2012, USAID executed Task Order No. AID-306-TO-13-00002 (Task Order) under the IQC to implement the Irrigation and Watershed Management Program ("IWMP" or "Program") in Afghanistan. The Task Order was in the amount of \$129,963,114 and was on a cost plus fixed fee basis [REDACTED]. The initial obligated amount was \$10,000,000. The period of performance was to be 60 months from the date of award (December 21, 2012 through December 20, 2017). After subsequent modifications, the Task Order obligated fund was decreased from \$26,000,000 to \$16,000,000. During implementation of the Program, USAID recognized performance problems and programmatic difficulties and decided to terminate the Program. On December 18, 2013, PMSI agreed to a no-cost termination of the project. However, the no-cost termination was subsequently revised to a Termination for Convenience and approved by USAID on November 25, 2014. The final settlement of the project was signed by PMSI on July 15, 2015. Total costs incurred from December 21, 2012 through July 31, 2015 were \$14,944,730.

The goal of the IWMP was to expand and strengthen the Afghan government and community-level capacity to better manage water resources to improve agricultural production and productivity. The goal was to be pursued through four components: governance and capacity building; water supply management; water demand management; and Afghanistan government implementation of on-budget irrigation and watershed management activities.

PMSI was awarded the contract to implement the IWMP in partnership with the Afghanistan Ministry of Agriculture, Irrigation, and Livestock (MAIL) and conduct training and capacity building activities at both the central ministry and sub-national levels. The scope of work directed that during the first two years of the contract, PMSI was to conduct field activities under the water supply and management components of the Program by implementing model activities designed to demonstrate best practices in irrigation and watershed management.

PMSI is a wholly owned subsidiary of Tutor Perini Corporation and specializes in design-build construction for U.S. federal agencies, both within and outside the continental United States. It also provides construction services for U.S. multi-national firms and select foreign governments.

PERINI MANAGEMENT SERVICES, INC.

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Work Performed

Mayer Hoffman McCann P.C. (“MHM”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of PMSI’s IWMP Special Purpose Financial Statement (“SPFS”) for the period December 21, 2012 through July 31, 2015.

Objectives, Scope and Methodology

Objectives Defined by SIGAR

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

- *The Special Purpose Financial Statement (SPFS)* – Express an opinion on whether PMSI’s SPFS 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 PMSI’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 PMSI 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 PMSI has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred, including indirect costs and fixed fees, during the period December 21, 2012 through July 31, 2015 under the Task Order. Our testing of indirect costs and fixed fees was limited to determining that the indirect costs were calculated using the correct final negotiated indirect cost rate or the provisional indirect cost rate, as applicable, for the given fiscal year,

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as approved by USAID. Our testing of fixed fees was limited to determining that the fixed fee was applied as determined by the Task Order.

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 August 24, 2015. Participants included representatives of Mayer Hoffman McCann P.C. (MHM), PMSI, Special Inspector General for Afghanistan Reconstructions (SIGAR) and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of PMSI;
- Reviewed the Task Order and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Task Order;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the SPFS, 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. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were 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 Task Order, 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.

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- For medium risk cost categories, we sampled at least 20% of the dollar value of the account.
- For low risk cost categories, we sampled 10% of the dollar value of the account, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

If the results of 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 the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the SPFS

We reviewed PMSI'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.

Compliance with Task Order Requirements and Applicable Laws and Regulations

We reviewed the Task Order, modifications and subawards 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 or other financial data significant to the audit objectives. 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 Task Order and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Task Order and reasonable.

PERINI MANAGEMENT SERVICES, INC.

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Exit Conference

An exit conference was held on November 12, 2015 via conference call. Participants included MHM, PMSI, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by PMSI under the Task Order with USAID identified the following matters:

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We did identify \$838 of questioned costs, but this amount does not represent a material misstatement of the SPFS. A summary of findings and questioned costs is as follows:

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2015-1	Compliance	Equipment not transferred or returned	\$748	\$748
2015-2	Compliance	Damaged equipment not reported to USAID	None	\$748
2015-3	Compliance	Lack of evidence acknowledging transfer of equipment	None	\$748
2015-4	Compliance	Lack of adherence to federal travel regulations	\$90	\$838
2015-5	Internal Control – Significant Deficiency	Need to implement monitoring program for subcontractors	None	\$838
2015-6	Compliance	Lack of USAID approval within the required timeframe for travel	None	\$838

PERINI MANAGEMENT SERVICES, INC.

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For the Period December 21, 2012 through July 31, 2015

Internal Control Findings

Our audit discovered one significant deficiency in internal control. See Independent Auditor's Report on Internal Control on page 15. The complete management responses from PMSI 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 Task Order and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed five instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 17. The complete management responses from PMSI to each of the compliance findings can be found in Appendix A to this report.

Prior Findings and Recommendations

We requested copies of prior audits, reviews and evaluations pertinent to PMSI's activities under the Program. Per communication with PMSI and USAID, there were no prior audit reports issued for this program.

Summary of PMSI's Responses to Findings

PMSI agrees with all of the findings as presented. The complete responses received can be found in Appendix A to this report.



INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Perini Management Services, Inc.
Framingham, Massachusetts

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Perini Management Services, Inc. (PMSI) under Indefinite-Quantity Contract No. 306-I-00-12-00546-00, Task Order AID-306-TO-13-00002, with the United States Agency for International Development (USAID) to support the Afghanistan Irrigation and Watershed Management Program for the period December 21, 2012 through July 31, 2015, 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.

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.

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by PMSI under Indefinite-Quantity Contract No. 306-I-00-12-00546-00, Task Order AID-306-TO-13-00002 for the period December 21, 2012 through July 31, 2015 in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the Special Purpose Financial Statement, which describes the basis of accounting. As described in Note 1 to the Special Purpose Financial Statement, the Special Purpose Financial Statement is prepared by PMSI on the basis of the financial reporting provisions of the Indefinite-Quantity Contract No. 306-I-00-12-00546-00, Task Order AID-306-TO-13-00002 and the Federal Acquisition Regulation Part 31, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of USAID. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of Perini Management Services, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 1, 2016 on our consideration of PMSI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PMSI's internal control over financial reporting and compliance.



Irvine, California
February 1, 2016

PERINI MANAGEMENT SERVICES, INC.
 Financial Audit of Costs Incurred under
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Special Purpose Financial Statement

For the Period December 21, 2012 through July 31, 2015

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
306-I-00-12-00546-00	\$ 129,963,114	\$ 14,944,730	\$ -	\$ -	\$ -	(4)
Total revenues	<u>129,963,114</u>	<u>14,944,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Direct labor and fringe benefits	7,736,972	1,224,370	-	-	-	
Travel, transportation and per diem	374,317	148,734	-	-	-	
Procurement	702,748	311,370	-	691	691	(A)
Equipment and supplies	333,538	84,082	-	-	-	
Communications	453,150	48,588	-	-	-	
Subcontract/consultants	70,016,770	6,805,690	83	-	83	(B)
Allowance	2,108,432	314,561	-	-	-	
Direct facilities cost	6,093,833	1,912,922	-	-	-	
Other direct costs	1,149,195	140,952	-	-	-	
Security	21,547,048	2,826,090	-	-	-	
Grants under contract	10,000,000	-	-	-	-	
██████████	██████████	██████████	█	█	█	█
██████████	██████████	██████████	█	█	█	█
Total costs incurred	<u>129,963,114</u>	<u>14,944,730</u>	<u>90</u>	<u>748</u>	<u>838</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (90)</u>	<u>\$ (748)</u>	<u>\$ (838)</u>	

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

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred Under
Indefinite-Quantity Contract No. 306-I-00-12-00546-00
Task Order AID-306-TO-13-00002

Notes to Special Purpose Financial Statement¹

For the Period December 21, 2012 through July 31, 2015

(1) **Basis of Accounting**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under the Indefinite-Quantity Contract (IQC) No. 306-I-00-12-00546-00, Task Order AID-306-TO-13-00002, for the period December 21, 2012 through July 31, 2015. Because the SPFS presents only a selected portion of the operations of PMSI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PMSI. 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 IQC and Task Order.

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*.

(2) **Foreign Currency Conversion Method**

PMSI converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by applying an average monthly rate based upon the bank rates used to transfer funds between U.S. dollars and Afghanis.

(3) **Revenue**

As of July 31, 2015, PMSI has reported \$14,944,730 in revenue. This revenue equals total expenditures invoiced to USAID for the period December 21, 2012 through July 31, 2015. PMSI has received reimbursement totaling \$14,923,247. The outstanding amount of \$21,483 is due from USAID.

(4) **Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved Task Order budget.

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

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred under
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Task Order AID-306-TO-13-00002

Notes to Special Purpose Financial Statement

(Continued)

(5) Currency

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

(6) Status of Financial Reporting to PMSI

The SPFS, as presented, reflects the all invoices submitted to USAID and the final negotiated settlement and deobligation of excess funds as of July 31, 2015. The Irrigation and Watershed Management Program (Program) has been terminated and no further costs will be incurred.

(7) Indirect Costs

PMSI charged a self-studied [REDACTED] of total direct cost. The rate was accepted by Defense Contract Audit Agency (DCAA) in 2012 but has not been audited. Also, the rate was within the terms of IQC's ceiling rate of [REDACTED]

(8) Fixed Fee

PMSI charged a [REDACTED] applied to total allowable costs, which is in accordance with the approved budget and is less than the fee ceiling of [REDACTED] per the terms of the IQC.

(9) Outstanding Fund Balance

As of July 31, 2015, there was no outstanding fund balance under the Task Order as the SPFS is prepared under the accrual basis of accounting as described in Note 1.

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred Under
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Task Order AID-306-TO-13-00002

Notes to Questioned Costs Presented on Special Purpose Financial Statement²

For the Period December 21, 2012 through July 31, 2015

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 Task Order and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(A) Procurement

PMSI reported procurement costs in the amount of \$311,370 for the period December 21, 2012 through July 31, 2015. Upon termination of the Program, all equipment had to be accounted for and distributed in accordance with USAID instructions. However, two cell phones with a total cost of \$691 were not returned to PMSI by its employees. See Finding 2015-1 in the Findings and Responses section of this report.

(B) Subcontract/Consultants

PMSI reported subcontract/consultants costs in the amount of \$6,805,690 for the period December 21, 2012 through July 31, 2015. In four transactions, per diem for meals was charged at 100% instead of 75% as required for travel days. The excess per diem for meals was \$71. Total questioned cost including subcontractor's [REDACTED]. See Finding 2015-4 in the Findings and Responses section of this report.

(C) Indirect Cost Rate

PMSI reported indirect costs in the amount of [REDACTED] for the period December 21, 2012 through July 31, 2015. The [REDACTED] was applied to total direct costs. As costs were questioned as part of this audit, this indirect cost rate was applied to the questioned costs by cost category. A summary of associated questioned indirect costs applied by cost category is as follows:

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Associated Questioned Indirect Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
Procurement (Note A)	[REDACTED]	[REDACTED]	[REDACTED]
Subcontract/consultants (Note B)	[REDACTED]	[REDACTED]	[REDACTED]
Total questioned indirect costs		[REDACTED]	[REDACTED]

² 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.

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Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

(D) Fixed Fee

PMSI reported fixed fee in the amount [REDACTED] for the period December 21, 2012 through July 31, 2015. The fixed fee reported [REDACTED] of total direct and indirect costs. As costs were questioned as part of this audit, this fixed fee rate was applied to the questioned costs by cost category. A summary of associated questioned costs applicable to the fixed fee applied by cost category is as follows:

<u>Cost Category</u>	<u>Questioned Direct Costs</u>	<u>Questioned Indirect Costs</u>	<u>Total Questioned Costs</u>	<u>Associated Questioned Fixed Fee</u>	
				<u>Ineligible</u>	<u>Unsupported</u>
Procurement (Notes A and C)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Subcontract/consultants (Notes B and C)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total questioned fixed fee				[REDACTED]	[REDACTED]



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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Perini Management Services, Inc.
Framingham, Massachusetts

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 Perini Management Services, Inc. (PMSI) representing revenues received and costs incurred under Indefinite-Quantity Contract No. 306-I-00-12-00546-00, Task Order AID-306-TO-13-00002, with the United States Agency for International Development (USAID) to support the Afghanistan Irrigation and Watershed Management Program for the period December 21, 2012 through July 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered PMSI'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 PMSI's internal control. Accordingly, we do not express an opinion on the effectiveness of PMSI's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Special Purpose Financial Statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described as Finding 2015-5 in the accompanying Findings and Responses that we consider to be a significant deficiency.

PMSI's Response to Findings

PMSI's response to the findings identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. PMSI'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 the PMSI's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of Perini Management Services, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California
February 1, 2016



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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Perini Management Services, Inc.
Framingham, Massachusetts

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 Perini Management Services, Inc. (PMSI) representing revenues received and costs incurred under Indefinite-Quantity Contract No. 306-I-00-12-00546-00 (IQC), Task Order AID-306-TO-13-00002 (Task Order), with the United States Agency for International Development (USAID) to support the Afghanistan Irrigation and Watershed Management Program for the period December 21, 2012 through July 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 1, 2016.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PMSI's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the aforementioned IQC and Task Order, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed five 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 2015-1, 2015-2, 2015-3, 2015-4 and 2015-6.

PMSI's Response to Findings

PMSI's response to the findings identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. PMSI'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 the PMSI's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of Perini Management Services, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California
February 1, 2016

PERINI MANAGEMENT SERVICES, INC.

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Status of Prior Audit Findings

For the Period December 21, 2012 through July 31, 2015

We requested copies of prior audits, reviews and evaluations related to PMSI's work to support the Afghanistan Irrigation and Watershed Management Program (IWMP). Per communication with PMSI and USAID, there were no prior audit reports issued for this program that could have a material effect on the special purpose financial statement.

PERINI MANAGEMENT SERVICES, INC.

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Findings and Responses

For the Period December 21, 2012 through July 31, 2015

Finding Number 2015-1: Equipment not Transferred or Returned

Nature of Finding:

Compliance

Condition:

PMSI did not adhere to federal regulations related to government-owned equipment. Upon termination of the Task Order, the following equipment was not returned by PMSI's employees and therefore not available to be transferred to USAID. The equipment was claimed under the Procurement cost category.

<u>Asset No.</u>	<u>Date of Purchase</u>	<u>Description</u>	<u>Cost</u>
0396	07/15/13	Apple iPhone 4s 32GB	\$550
0200	04/25/13	Nokia x1-01	<u>141</u>
Total equipment not transferred or returned to USAID			<u>\$691</u>

Criteria:

PMSI Property Management Manual, Section D, *IWMP Property Management Procedures*, states, in part:

“...Custodial Responsibilities

The Property Manager and Director of Operations are responsible for the following requirements as specifically set forth by USAID:

- Immediately report the loss by theft of any Government Property to PMSI IWMP Compliance Officer, COP and Program Manager, Security Manager...The Program Manager will then notify the Client's Contracting Officer;
- As soon as possible, but not less than quarterly, report changes in item location, or the responsible user to the PMSI Operations Director...
- Government Property cannot be used for any purpose other than for performance under the contract to which it has been assigned...”

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Findings and Responses

(Continued)

22 CFR 226.34, *Equipment*, states, in part:

“...(f) The recipient’s property management standards for equipment acquired with Federal Funds and federally-owned equipment shall include all of the following:...

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency with whose funds the equipment was purchased...

(h) USAID reserves the right to transfer the title to the Federal Government or to a third party named by the Federal Government when such third party is otherwise eligible under existing statutes. Such transfer shall be subject to the following standards:

(1) The equipment shall be appropriately identified in the award or otherwise made known to the recipient in writing.

(2) USAID shall issue disposition instructions within 120 calendar days after receipt of a final inventory. The final inventory shall list all equipment acquired with award funds and federally-owned equipment. If USAID fails to issue disposition instructions within the 120 calendar day period, the recipient shall apply the standards of this section, as appropriate.

(3) When USAID exercises its right to take title, the equipment shall be subject to the provisions for federally-owned equipment.”

Cause:

Equipment was not returned by employees to PMSI as required by PMSI procedures and management did not follow up with the employees to ensure all equipment was returned upon termination of the program.

Effect:

Not returning government equipment could result in equipment being sold and the proceeds used for something other than the objective of the Task Order without USAID’s knowledge. USAID needs the receipt to ensure that the equipment was actually transferred and received. Otherwise, there is a risk that equipment was stolen or misdirected.

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Findings and Responses

(Continued)

Questioned Costs:

Total questioned procurement costs, [REDACTED] in the amount of \$748 due to equipment not returned and unavailable to be transferred.

Recommendation:

- (1) We recommend that PMSI either locate the missing equipment and return it to USAID, or return \$748 to USAID for the cost of the missing equipment.
- (2) We recommend that PMSI provide training to its employees with respect to custodial responsibilities as outlined in its Property Management Manual to ensure they comply with federal regulations regarding whether adequate safeguards are in place to prevent loss, damage, or theft of U.S. government-furnished equipment and appropriately document the transfer of equipment as required.

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Findings and Responses

(Continued)

Finding Number 2015-2: Damaged Equipment not Reported to USAID

Nature of Finding:

Compliance

Condition:

PMSI did not adhere to federal regulations related to government-owned equipment. PMSI was unable to provide support that it reported the following damaged equipment to USAID. PMSI did maintain an inventory log that identified equipment that was damaged. No costs are questioned as evidence was provided to support that this damaged equipment was properly transferred to another recipient as required by USAID.

<u>Asset No.</u>	<u>Date of Purchase</u>	<u>Description</u>	<u>Cost</u>
0285	05/27/13	Laptop – Sony Vaio	\$ 682
0088	(a)	Desk Chair	110
0089	(a)	Desk Chair	110
0606	(a)	Nokia 110	43
0083	(a)	Revolving Chair	<u>110</u>
Total damaged equipment			<u>\$1,055</u>

(a) Date of purchase not available.

Criteria:

PMSI Property Management Manual, Section D, *IWMP Property Management Procedures*, states, in part:

“...Custodial Responsibilities

The Property Manager and Director of Operations are responsible for the following requirements as specifically set forth by USAID:...

- Report any significant change in the item’s Condition Code (damage, malfunction and breakage) to the Operations Director...”

22 CFR 226.34, *Equipment*, states, in part:

“...(f) The recipient’s property management standards for equipment acquired with Federal Funds and federally-owned equipment shall include all of the following:...

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Findings and Responses

(Continued)

“(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency with whose funds the equipment was purchased...

(h) USAID reserves the right to transfer the title to the Federal Government or to a third party named by the Federal Government when such third party is otherwise eligible under existing statutes. Such transfer shall be subject to the following standards:

(1) The equipment shall be appropriately identified in the award or otherwise made known to the recipient in writing.

(2) USAID shall issue disposition instructions within 120 calendar days after receipt of a final inventory. The final inventory shall list all equipment acquired with award funds and federally-owned equipment. If USAID fails to issue disposition instructions within the 120 calendar day period, the recipient shall apply the standards of this section, as appropriate.

(3) When USAID exercises its right to take title, the equipment shall be subject to the provisions for federally-owned equipment.”

22 CFR 226.53, *Retention and Access Requirements for Records*, states, in part:

“...(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID...”

Cause:

PMSI indicated that it did identify damaged equipment on its inventory log, but could not provide support that it communicated the damaged equipment to USAID as some documents may have been misplaced when the documents were transferred from Afghanistan to its headquarters in the United States.

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Findings and Responses

(Continued)

Effect:

Without maintaining evidence of communication of damaged equipment to USAID could result in the equipment being sold and the proceeds used for something other than the objective of the Agreement without USAID's knowledge.

Questioned Costs:

None

Recommendation:

We recommend that PMSI provide training to its employees regarding the need to comply with its policies and federal regulations surrounding the reporting of damaged equipment and the retention of evidence supporting this communication.

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Findings and Responses

(Continued)

Finding Number 2015-3: Lack of Evidence Acknowledging Transfer of Equipment

Nature of Finding:

Compliance

Condition:

Upon termination of the Task Order, USAID directed PMSI to transfer all equipment to 21 different recipients. The equipment transfers were documented in 8 separate transfer agreements. PMSI, USAID and each of the recipient agencies signed the transfer agreements for the transfer of these assets. The agreements were executed by all of the recipients indicating their need for the equipment. However, of the 21 recipients, an acknowledgement of receipt of the transfer was not signed by 6 recipients. No costs were questioned as USAID, PMSI and other recipients had signed the agreements.

Criteria:

PMSI Property Management Manual, Section D, *IWMP Property Management Procedures*, states, in part:

“...Transfer & Disposition

Any property acquired for or transferred to a USAID approved counterpart organization or recipient **MUST BE ACCOMPANIED** by signed transfer documentation that delineates the following:

- Name of Recipient Organization and individual authorized to accept and agree to transfer terms
- Identification of Property being transferred
- Cite and Date of USAID C.O. disposition authorization, consent or direction
- Clear explanation of terms of acceptance
- Signatures of authorized PMSI and Recipient representatives
- Attachments that include Property Management Guidelines for Recipients

It is the responsibility of the Operations Director and the Chief of Party to ensure that instructions for the disposition of reportable, non-expendable property (both U.S. Government and Cooperating Country) must be written and must have the concurrence of the USAID Contracting Officer. No item of U.S. Government Property may be disposed of at any time through sale or scrap without written approval from the U.S. Government, usually the Contracting Officer. Disposition instructions will vary with each contract.”

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Findings and Responses

(Continued)

22 CFR 226.34, *Equipment*, states, in part:

“...(f) The recipient’s property management standards for equipment acquired with Federal Funds and federally-owned equipment shall include all of the following:...

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency with whose funds the equipment was purchased...

(h) USAID reserves the right to transfer the title to the Federal Government or to a third party named by the Federal Government when such third party is otherwise eligible under existing statutes. Such transfer shall be subject to the following standards:

(1) The equipment shall be appropriately identified in the award or otherwise made known to the recipient in writing.

(2) USAID shall issue disposition instructions within 120 calendar days after receipt of a final inventory. The final inventory shall list all equipment acquired with award funds and federally-owned equipment. If USAID fails to issue disposition instructions within the 120 calendar day period, the recipient shall apply the standards of this section, as appropriate.

(3) When USAID exercises its right to take title, the equipment shall be subject to the provisions for federally-owned equipment.”

22 CFR 226.53, *Retention and Access Requirements for Records*, states, in part:

“...(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID...”

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Findings and Responses

(Continued)

Cause:

PMSI indicated that all equipment was transferred per the signed agreements and that if it was not transferred, the recipients would have contacted USAID. PMSI could not provide support that some of the transfer acknowledgements were signed as some documents may have been misplaced when the documents were transferred from Afghanistan to its headquarters in the United States.

Effect:

Without maintaining evidence acknowledging receipt of the transferred equipment could result in the equipment being sold and the proceeds used for something other than the objective of the Agreement without USAID's knowledge. USAID needs the receipt to ensure that the equipment was actually transferred and received. Otherwise, there is a risk that equipment was stolen or misdirected.

Questioned Costs:

None

Recommendation:

We recommend that PMSI provide training to its employees regarding the need to comply with its policies and federal regulations surrounding the transfer of equipment and the retention of evidence supporting the transfer.

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Findings and Responses

(Continued)

Finding Number 2015-4: Lack of Adherence to Federal Travel Regulations

Nature of Finding:

Compliance

Condition:

In four instances, one of PMSI’s subcontractors, AECOM, charged the applicable Meals and Incidental Expenses (M&IE) rate at 100% of the General Services Administration (GSA) allowable M&IE rate instead of 75% as the days in question were travel days. This resulted in excess M&IE of \$71 as follows. The excess M&IE was claimed under the Subcontract/consultants cost category.

<u>Date</u>	<u>Location</u>	<u>Full Day M&IE</u>	<u>Travel Day M&IE</u>	<u>M&IE Claimed</u>	<u>Excess M&IE</u>
1/10/13	Arlington, VA	\$71.00	\$53.25	\$71.00	\$17.75
1/11/13	Arlington, VA	71.00	53.25	71.00	17.75
1/17/13	Arlington, VA	71.00	53.25	71.00	17.75
1/18/13	Arlington, VA	71.00	53.25	71.00	<u>17.75</u>
Total excess M&IE					<u>\$71.00</u>

Criteria:

At the time the expense was incurred, a written policy on travel expenses did not exist. The document cited formalized PMSI’s informal policies. PMSI’s Afghanistan Irrigation and Watershed Management Program Operation Manual dated April 2013, *Travel, A. Travel Expenses*, states, in part:

“... In general, all IWMP Staff is entitled to reimbursement of all reasonable costs in accordance with the U.S. Federal Travel Regulation located at: <http://www.gsa.gov/portal/content/102886> and the current per diem rates located at http://aoprals.state.gov/web920/per_diem.asp...”

41 CFR 301-11.101, *What Allowance will I be paid for M&IE?*, states, in part:

“...your allowance is as shown in the following table:

When travel is		Your allowance is
...24 hours or more on	The day of departure	75 percent of the applicable M&IE rate.
	Full days of travel	100 percent of the applicable M&IE rate.
	The last day of departure	75 percent of the applicable M&IE rate...

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Findings and Responses

(Continued)

The applicable GSA M&IE rate for Arlington, Virginia, in January 2013 was \$71.00.

Cause:

The subcontractor's employee who was in travel status lacked familiarity with the Federal Travel Regulation and there was a lack of management oversight upon review of the expense reports.

Effect:

Claiming M&IE at 100% on travel days resulted in excess M&IE charged to the Task Order, which resulted in costs being overcharged to USAID.

Questioned Costs:

Total questioned subcontract/consultant costs, including [REDACTED], in the amount of \$90 due to excess M&IE claimed is comprised of the following:

Excess M&IE	[REDACTED]
AECOM indirect cost	[REDACTED]
AECOM fixed fee	[REDACTED]
Total Subcontract/consultant ineligible costs	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Total ineligible costs	<u>\$90</u>

Recommendation:

- (1) We recommend that PMSI return \$90 to USAID for excess M&IE charged to the Task Order.
- (2) We recommend that PMSI provide training to its employees and subcontractors on how to charge M&IE to ensure it is in accordance with the Federal Travel Regulation.

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Findings and Responses

(Continued)

Finding Number 2015-5: Need to Implement Monitoring Program for Subcontractors

Nature of Finding:

Internal control – significant deficiency

Condition:

PMSI utilized five subcontractors on the Task Order. The review of its subcontractors consisted of reviewing invoices for mathematical accuracy and reasonableness prior to payment. However, subcontractors were not required to submit any supporting documentation with their invoice. Additionally, PMSI did not perform sufficient monitoring of its subcontractors.

Criteria:

PMSI's Cost Accounting Policies and Procedures, Policy Number 7, *Subcontractor Procedures*, states, in part:

“1.1 It is the policy of PMSI to accurately document and maintain adequate subcontract records, to monitor subcontractor status on an ongoing basis...”

22 CFR 226.5, *Subawards*, states, in part:

“...the provisions of this part shall be applied to subrecipients...”

22 CFR 226.51, *Monitoring and reporting program performance*, states, in part:

“(a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section 226.26...”

As indicated above, the provisions of Part 226 of 22 CFR flow down to all subrecipients. All monitoring and reporting program performance are required of the subrecipients, just as if they had been a direct recipient. The recipient has a duty to monitor its subrecipients to ensure compliance.

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(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...”

Cause:

PMSI believed its subcontractors were highly regarded and had performed well on other projects. Therefore, it did not believe it was necessary to request and review back-up documentation or perform other monitoring.

Effect:

Failure to obtain and review documentation supporting invoices from subcontractors and not adequately monitoring subcontractors could result in unallowable and unsupported costs. In a hostile environment, monitoring subcontractors is critical in order to ensure funds expended were reasonable, allowable and allocable and in accordance with federal regulations.

Questioned Costs:

None

Recommendation:

We recommend that PMSI revise its Subcontractor Procedures to include procedures to monitor the performance of its subcontractors throughout the period of performance of a subcontract and required adequate documentation for all expenses as required by federal regulations.

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Findings and Responses

(Continued)

Finding Number 2015-6: Lack of USAID Approval within the Required Timeframe for Travel

Nature of Finding:

Compliance

Condition:

Two PMSI employee's international travel requests were not obtained 3 weeks prior to the trip as required by USAID International Travel Requirements. The approval was only obtained within a week prior to the trip.

Criteria:

PMSI does not have formal policies regarding international travel. Their informal policy is to follow the AIDAR requirements. AIDAR 752.7032, *International travel approval and notification requirements*, states:

“...The Contractor shall therefore present to the Contracting Officer an itinerary for each planned international trip, showing the name of the traveler, purpose of the trip, origin/destination (and intervening stops), and dates of travel, as far in advance of the proposed travel as possible, but in no event less than three weeks before travel is planned to commence...”

Cause:

The lack of timely approval was because the travel was confirmed in a short notice due to various reasons including employee renewal of expiring visa and rescheduling of Rest and Recuperation due to demand for project schedule change.

Effect:

Submitting requests for international travel within three weeks of travel commencing is not in accordance with USAID regulations and can result in a lack of adequate time for the Contracting Officer to review and approve the travel.

Questioned Costs:

None

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred under
Indefinite-Quantity Contract No. 306-I-00-12-00546-00
Task Order AID-306-TO-13-00002

Findings and Responses

(Continued)

Recommendation:

We recommend that PMSI develop and implement procedures to ensure that all requests for international travel on USAID funded projects are requested at least three weeks prior to commencement of travel.

PERINI MANAGEMENT SERVICES, INC.

Financial Audit of Costs Incurred under
Indefinite-Quantity Contract No. 306-I-00-12-00546-00
Task Order AID-306-TO-13-00002

PMSI'S Responses to Findings

For the Period December 21, 2012 through July 31, 2015

Included on the following pages is PMSI's responses received to the findings identified in this report.

Perini Management Services, Inc.
73 Mt. Wayte Avenue
Framingham, MA 01701-9160
Tel: 508/628-2000 Fax: 508/628-2357



January 19, 2016

Mayer Hoffman McCann P.C.
2301 Dupont Drive
Irvine, CA 92612

Attention: Andrea Jayasekara, Manager

RE: Financial Audit Of Costs Incurred Under Indefinite Contract No. 306-I-00-12-00546-00
Task Order No. AID-306-13-0002

Dear Ms. Jayasekara,

This letter constitutes the response of Perini Management Services, Inc. (PMSI) to draft audit report referenced above that was transmitted to us on January 4, 2016 by Ms. Jayasekara, MHM Audit Manager. We shall address each of the six (6) findings listed in the draft report.

2015-1 Equipment not Transferred or Returned

- 1) PMSI maintained a list in excess of 720 items of all inventoried expenditures, valued at \$311,370, for the Kabul operations alone. These two cell phones were issued to two additional agencies (CCI-Creative and AIMS) working on the IWMP project. Due to the speed of the reduction of workforce requested by USAID, PMSI made every effort to recover the cost of the missing equipment. PMSI will return the \$748 in questioned costs.
- 2) Training was provided to PMSI employees related to custodial responsibilities and all protocols were followed. In addition to the two items mentioned above, there were other items that had been misplaced, reported as such and costs were recovered. The speed at which PMSI demobilized, at the request of USAID, resulted in increased savings to the government; these two pieces of expendable equipment were an anomaly.

2015-2 Damaged Equipment not Reported to USAID

- 1) PMSI did provide documentation to USAID related to the damaged equipment, however, this document has been misplaced. All IWMP hired project personnel were terminated from the project upon demobilization, thus home office personnel retrieved documents as best as they could based on limited knowledge of the project details. PMSI will reinforce the training provided to their employees regarding the retention of evidence supporting the communication in writing.

Andrea Jayasekara, Manager
January 19, 2016
Page 2

2015-3 Lack of Evidence Acknowledging Transfer of Equipment

- 1) All IWMP hired project personnel were terminated from the project upon demobilization, thus home office personnel retrieved documents as best as they could based on limited knowledge of the project details. PMSI will reinforce the training provided to their employees regarding the need to require supporting evidence of transfer of equipment.

2015-4 Lack of Adherence to Federal Travel Regulations

- 1) PMSI will return the \$90 in questioned costs.
- 2) PMSI will reinforce the training provided to their employees as well as provide additional training to our subcontractors related to Federal Travel Regulations.

2015-5 Need to Implement Monitoring Program for Subcontractors

- 1) PMSI will implement a more strict monitoring process to their current Subcontractor Procedures to include the recommendations of the auditor.

2015-6 Lack of USAID Approval within the Required Timeframe for Travel

- 1) PMSI has procedures in place related to the monitoring of travel. Two key employees were forced to cancel their original, approved travel plans due to the work load and tight project schedule. They rescheduled when time permitted which resulted in a less than three week re-approval.

We are available at your convenience to discuss our above responses if you would like. Please contact me if you have any questions or require any additional information.

Sincerely,

Perini Management Services, Inc.



SIGAR's Mission

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

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

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- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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Public Affairs

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