

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-52 Financial Audit

USAID's Efforts to Improve Education through the Afghan Children Read Program: Audit of Costs Incurred by Creative Associates International



SEPTEMBER
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 6, 2016, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee task order for \$69,547,810 to Creative Associates International (CAI) to support the Afghans Read program. USAID established the program to help the Afghan Ministry of Education provide various educational services, including the development of reading curricula and teacher training for early primary education. In January 2017, the agency changed the name to Afghan Children Read.

The task order included a period of performance from April 6, 2016, through April 5, 2021. USAID modified the task order four times, but did not change the budget or period of performance.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$13,048,489 in costs charged to the task order from October 1, 2017, through September 30, 2018. The objectives were to (1) identify and report on material weaknesses or significant deficiencies in CAI's internal controls related to the contracts; (2) identify and report on instances of material noncompliance with the terms of the contracts, and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether CAI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of CAI's Special Purpose Financial Statement (SPFS). See Davis Farr's report for the precise audit objectives.

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

September 2020

USAID's Efforts to Improve Education through the Afghan Children Read Program: Audit of Costs Incurred by Creative Associates International

SIGAR 20-52-FA

WHAT SIGAR FOUND

Davis Farr did not identify any material weaknesses or significant deficiencies in CAI's internal controls, or any instances of noncompliance with the terms and conditions of the contracts. Accordingly, the auditors did not identify any questioned costs.

Davis Farr reviewed four prior audit reports applicable to the task order and identified 10 findings that could have a material effect on the organization's SPFS. The auditors performed follow-up audit procedures and determined that CAI has taken adequate corrective actions on all 10 findings.

Davis Farr issued an unmodified opinion on CAI's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Davis Farr did not report any findings specific to the SPFS of the task order under review. Therefore, SIGAR is not making any recommendations.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 14, 2020

Mr. John Barsa
Acting Administrator, U.S. Agency for International Development

Dr. Tina Dooley-Jones
USAID Mission Director for Afghanistan

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by Creative Associates International (CAI) under the U.S. Agency for International Development (USAID) task order to support USAID's Afghans Read program that it established to help the Afghan Ministry of Education provide educational services.¹ The auditors reviewed \$13,048,489 in costs charged to the task order from October 1, 2017, through September 30, 2018. Our contract with Davis Farr 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 the audit, Davis Farr did not report any findings related to the task order under review. Therefore, SIGAR is not making any recommendations.

The results of Davis Farr's audit are discussed in detail in the attached report. We reviewed the 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 CAI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of CAI's internal control or compliance with the contract, laws, and regulations. Davis Farr is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Davis Farr did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-171)

¹ USAID changed the program name in January 2017 to Afghan Children Read. The task order number is AID-306-TO-16-00003.

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under
Task Order No. AID-306-TO-16-00003
Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

July 8, 2020

Enclosed is the final report on the financial audit of costs incurred by Creative Associates International (CAI) under Task Order Number AID-306-TO-16-00003 for the Afghan Children Read (ACR) program. The audit covers the period October 1, 2017 through September 30, 2018.

Included within the final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from CAI, the Special Inspector General for Afghanistan Reconstruction and the U.S. Agency for International Development. There were no findings or questioned costs identified as a result of our audit.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under
Task Order No. AID-306-TO-16-00003
Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

Table of Contents

	<u>Page</u>
Transmittal Letter	i
Background	1
Work Performed	1
Objectives, Scope, and Methodology	1
Summary of Results	4
Review of Prior Findings and Recommendations	5
Summary of CAI's Responses	5
Independent Auditor's Report on Special Purpose Financial Statement	6
Special Purpose Financial Statement	8
Notes to Special Purpose Financial Statement	9
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>	12
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	14
Status of Prior Findings	16

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

Background

On April 6, 2016, the United States Agency for International Development (USAID) awarded Task Order No. AID-306-TO-16-00003 (Task Order) to Creative Associates International (CAI) for the Afghans Read Program. In January 2017, USAID changed the project name to Afghan Children Read (ACR). ACR aims to improve educational achievement in Afghanistan by enabling the Afghan government's Ministry of Education (MOE) to provide educational services with measurable learning outcomes. The purpose of the Task Order is for CAI to assist the MOE in developing an evidence-based early grade reading curriculum in local languages. Additionally, CAI will partner with the MOE to design and execute professional development workshops that will train teachers to effectively implement an early elementary reading curriculum and instruction program for grades one to three

The Task Order was a cost-plus-fixed-fee completion type task order. It was awarded in the original amount of \$69,547,810, consisting of \$65,981,379 in cost reimbursement and \$3,566,431 in fixed fee. The period of performance was from April 6, 2016 through April 5, 2021. The Task Order was modified four times through September 24, 2018 for reasons such as changing the project name and updating reporting schedules.

CAI was founded in 1977 and provides services to support people around the world to realize the positive change they seek. These services range from building educational systems to promoting transparent elections. CAI is composed of four segments: education; communities in transition; economic growth; and creative development lab. CAI employs about 1,000 individuals around the globe to help host assistive programs in over 30 countries.

Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of CAI's Special Purpose Financial Statement (SPFS) for the period October 1, 2017 through September 30, 2018. Total costs plus fixed fee reported by CAI were \$13,048,489, consisting of \$12,620,517 of costs incurred plus \$427,972 in fixed fee.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether CAI's SPFS for the Task Order 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 Task Order and generally accepted accounting principles or other comprehensive basis of accounting.

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

- *Internal Controls* – Evaluate and obtain a sufficient understanding of CAI’s internal control related to the Task Order; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether CAI complied, in all material respects, with the Task Order 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 CAI 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

Our audit procedures reviewed \$13,048,489 of total costs plus fixed fee, consisting of \$12,620,517 of costs incurred plus \$427,972 in fixed fee for the period October 1, 2017 through September 30, 2018. The scope of this audit included the actual costs plus fixed fee. The period of performance of the Task Order is not yet complete. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the negotiated indirect cost rates approved by USAID. Our testing of the fixed fee was limited to ensuring the completion of the reports and deliverables as specified in the Task Order that occurred during the audit period. There were no scope limitations encountered in performing this audit.

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 October 22, 2019. Participants included representatives of Davis Farr, CAI, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of CAI;
- Reviewed the Task Order and all modifications to date;
- Reviewed sections of the Federal Acquisition Regulation (FAR) and the USAID Acquisition Regulation (AIDAR), which includes Chapter 7 of the FAR, as applicable to the Task Order;
- Performed a financial reconciliation; and

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

- 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 financial reports, and based upon the risk assessment and materiality 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, moderate or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:
 - For accounts that appear to contain unallowable and restricted items according to the terms of the Task Order, FAR Part 31, AIDAR and any other applicable regulations, we sampled 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$63,100, and additional transactions below \$63,100 to ensure that at least 50% of the total amount expended for each cost category was sampled.
 - For moderate risk categories, we sampled transactions that are greater than \$126,200, and additional transactions below \$126,200 to ensure at least 20% of the total amount expended for each cost category was sampled.
 - For low risk categories, we sampled transactions to ensure at least 15% of the total amount expended for each cost category was sampled. No sample was selected for indirect costs as we tested the proper application of the indirect cost rates. This included reviewing the approved indirect cost rates to ensure that CAI's invoices did not exceed these rates. Additionally, no sample was selected for fixed fee as we validated the completion of the reports and deliverables.

Internal Control Related to the SPFS

We reviewed CAI's internal controls related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal controls identified by CAI and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

Compliance with Task Order Requirements and Applicable Laws and Regulations

We reviewed the Task Order 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 with the Task Order requirements and laws and regulations.

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, CAI and USAID and requested all reports from previous engagements, as well as searched publicly available information for other reports that could have a material effect on the SPFS. If previous engagements indicated a need for corrective action to be taken, we ensured through inquiry, observation and/or testing whether the necessary steps were taken to adequately address those findings and recommendations. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Task Order, modifications 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. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner 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.

Exit Conference

An exit conference was held on May 13, 2020 via conference call. Participants included representatives from Davis Farr, CAI, 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 CAI under the Contract with USAID identified the following results.

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS, as there were no findings or questioned costs identified as a result of the audit.

Summary of Findings and Questioned Costs

There were no findings or questioned costs identified as a result of the audit.

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

For the Period October 1, 2017 through September 30, 2018

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered CAI's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed no internal control weaknesses required to be reported under *Government Auditing Standards*. See Independent Auditor's Report on Internal Control on page 12.

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 no instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 14.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Review of Prior Findings and Recommendations

We requested from CAI, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to CAI's activities under this Task Order. We were provided with four reports that contained a total of ten findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow up procedures including discussion with management, reviewed the revised policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that CAI has taken adequate corrective actions on all prior findings and these findings were not repeated under this audit. See the Status of Prior Findings on page 16 for a detailed description of the prior findings and recommendations.

Summary of CAI's Responses

There were no findings or questioned costs identified as a result of the audit. CAI reviewed the report and indicated it had no management comments.

INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT

Creative Associates International
5301 Wisconsin Avenue NW #700
Washington, DC 20015

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Creative Associates International (CAI) under Task Order Number AID-306-TO-16-00003 (Task Order) with the United States Agency for International Development (USAID) to support the Afghan Children Read (ACR) Program for the period October 1, 2017 through September 30, 2018, 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.

Auditor's 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

Creative Associates International
5301 Wisconsin Avenue NW #700
Washington, DC 20015

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

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

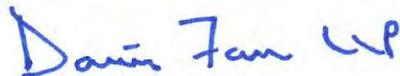
In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by CAI under the Task Order for the period October 1, 2017 through September 30, 2018 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of CAI, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 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 July 8, 2020 on our consideration of CAI'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 CAI's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Dawn Fan" followed by a stylized monogram or initials.

Irvine, California
July 8, 2020

CREATIVE ASSOCIATES INTERNATIONAL
Task Order No. AID-306-TO-16-00003
Aghan Children Read (ACR)

Special Purpose Financial Statement

For the Period October 1, 2017 through September 30, 2018

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-306-TO-16-00003	\$ 69,547,810	\$ 13,048,489	\$ -	\$ -	\$ -	(3)
Total revenues	<u>69,547,810</u>	<u>13,048,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Direct Costs	42,792,490	7,625,043	-	-	-	
Grants Under Contract	7,000,000	1,013,372	-	-	-	
Security	<u>4,235,004</u>	<u>1,090,738</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total direct costs incurred	54,027,494	9,729,153	-	-	-	
Indirect Costs	<u>11,953,885</u>	<u>2,891,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	(4)
Total costs incurred	65,981,379	12,620,517	-	-	-	
Fixed Fee	<u>3,566,431</u>	<u>427,972</u>	<u>-</u>	<u>-</u>	<u>-</u>	(5)
Total costs plus fixed fee	<u>69,547,810</u>	<u>13,048,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	(6)
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(7)

See Notes to Special Purpose Financial Statement

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

Notes to Special Purpose Financial Statement¹

For the Period October 1, 2017 through September 30, 2018

(1) Background

On April 6, 2016, the United States Agency for International Development (USAID) awarded Task Order No. AID-306-TO-16-00003 (Task Order) to Creative Associates International (CAI) for the Afghans Read Program. In January 2017, USAID changed the project name to Afghan Children Read (ACR). ACR aims to improve educational achievement in Afghanistan by enabling the Afghan government's Ministry of Education (MOE) to provide educational services with measurable learning outcomes. The purpose of the Task Order is for CAI to assist the MOE in developing an evidence-based early grade reading curriculum in local languages. Additionally, CAI will partner with the MOE to design and execute professional development workshops that will train teachers to effectively implement an early elementary reading curriculum and instruction program for grades one to three

The Task Order was a cost-plus-fixed-fee completion type task order. It was awarded in the original amount of \$69,547,810, consisting of \$65,981,379 in cost reimbursement and \$3,566,431 in fixed fee. The period of performance was from April 6, 2016 through April 5, 2021. The Task Order was modified four times through September 24, 2018 for reasons such as changing the project name and updating reporting schedules.

CAI was founded in 1977 and provides services to support people around the world to realize the positive change they seek. These services range from building educational systems to promoting transparent elections. CAI is composed of four segments: education; communities in transition; economic growth; and creative development lab. CAI employs about 1,000 individuals around the globe to help host assistive programs in over 30 countries.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred plus fixed fee for the ACR Program for the period October 1, 2017 through September 30, 2018. Because the SPFS presents only a selected portion of the operations of CAI, it is not intended to and does not present the financial position, changes in financial position, or cash flows of CAI. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is specific to the aforementioned Contract.

Basis of Accounting

Expenses 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 expenses are recognized following the cost principles contained in the cost principles of 48 CFR Part 31, *Federal Acquisition Regulations System* (FAR Part 31).

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

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under
Task Order No. AID-306-TO-16-00003
Afghan Children Read (ACR)

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of CAI. CAI converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by using the current exchange rate obtained from the local Afghan bank.

(3) Revenue

As of September 30, 2018, CAI has reported \$13,048,489 in revenue, which is inclusive of the fixed fee of \$427,972. This revenue equals the costs incurred by CAI under the Task Order for the period October 1, 2017 through September 30, 2018.

(4) Indirect Costs

CAI's indirect costs were reviewed and approved by USAID in a Negotiated Indirect Cost Rate Agreement (NICRA) dated April 17, 2018. The following provisional indirect cost rates were applicable to the Contract:

<u>Effective Period</u>	<u>Indirect Cost Rates</u>			
	<u>Fringe Benefits</u>		<u>Overhead (c)</u>	<u>G&A (d)</u>
	<u>CCN (a)</u>	<u>USN/TCN (b)</u>		
10/1/17 until amended	37.64%	40.00%	45.00%	21.00%

Base of Application:

- (a) Total Cooperating Country National (CCN) labor dollars
- (b) Total United States National (USN) and Third Country National (TCN) labor dollars
- (c) Total direct labor dollars and Bid and Proposal (B&P) labor dollars
- (d) Total costs excluding General and Administrative (G&A) and pass-through other direct expenses

(5) Fixed Fee

The Task Order is a cost plus fixed fee completion type task order. CAI is entitled to receive the fixed fee in accordance with deliverables as outlined in Section B.5 of the Contract.

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under
Task Order No. AID-306-TO-16-00003
Afghan Children Read (ACR)

Notes to Special Purpose Financial Statement

(Continued)

(6) Budget

The Budget as represented on the SPFS is the budget for the Task Order as a whole. The budget is not broken down into the period covered by the SPFS, which is October 1, 2017 through September 30, 2018.

(7) Outstanding Fund Balance

As of September 30, 2019, there was no outstanding fund balance under the Contract as the SPFS is prepared under the accrual basis of accounting described in Note 2.

(8) Subsequent Events

CAI has evaluated subsequent events through July 8, 2020, which is the date the SPFS was available to be issued. There were no events subsequent to this date that would impact the SPFS.

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

Creative Associates International
5301 Wisconsin Avenue NW #700
Washington, DC 20015

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

We have audited the accompanying Special Purpose Financial Statement of Creative Associates International (CAI) under Task Order Number AID-306-TO-16-00003 (Task Order) with the United States Agency for International Development (USAID) to support the Afghan Children Read (ACR) Program for the period October 1, 2017 through September 30, 2018, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 8, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered CAI'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 CAI's internal control. Accordingly, we do not express an opinion on the effectiveness of CAI'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 entity's financial statements 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during

Creative Associates International
5301 Wisconsin Avenue NW #700
Washington, DC 20015

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

our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of CAI, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 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.

A handwritten signature in blue ink, appearing to read "Darin Farn" followed by a stylized mark.

Irvine, California
July 8, 2020

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

Creative Associates International
5301 Wisconsin Avenue NW #700
Washington, DC 20015

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

We have audited the accompanying Special Purpose Financial Statement of Creative Associates International (CAI) under Task Order Number AID-306-TO-16-00003 (Task Order) with the United States Agency for International Development (USAID) to support the Afghan Children Read (ACR) Program for the period October 1, 2017 through September 30, 2018, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 8, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CAI's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and the aforementioned Task Order, noncompliance with which could have a direct and material effect on the determination of Special Purpose 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

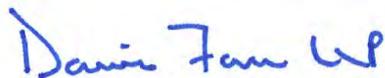
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Creative Associates International
5301 Wisconsin Avenue NW #700
Washington, DC 20015

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

This report is intended for the information of CAI, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 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.

A handwritten signature in blue ink that reads "David Tom WP". The signature is written in a cursive, somewhat stylized font.

Irvine, California
July 8, 2020

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under Task Order No. AID-306-TO-16-00003 Afghan Children Read (ACR)

Status of Prior Audit Findings

For the Period October 1, 2017 through September 30, 2018

We requested from CAI, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to CAI's activities under the Task Order. We were provided with four reports that contained a total of ten findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow up procedures including discussion with management, reviewed the revised policies and procedures and conducted testing of similar areas surrounding these issues during our current audit. Accordingly, we have concluded that CAI had taken adequate corrective actions on all of the findings. The summary of prior audit findings that could have a potential material effect on the SPFS are listed below:

Financial **Audit Report:** "Financial Audit of Costs Incurred by CAI Under ACR Program in Afghanistan, Task Order No. AID-306-TO-16-00003" for the period April 6, 2016 through September 30, 2017, which was conducted by Crowe LLP on behalf of USAID, and issued by USAID on May 20, 2019

- Finding No. 2018-01 (Suspension and Debarment): The audit firm noted that CAI did not perform searches for suspension and debarment.

Status: During our testing of costs, we reviewed to ensure searches for suspension and debarment were performed prior to making purchases from the vendors tested. No exceptions were noted. As such, the corrective action has been adequately implemented.

- Finding 2018-02 (Lack of Competitive Bidding and Vetting): The audit firm noted that CAI did not properly conduct procurement activities in accordance with internal policies, procedures and federal requirements.

Status: During our testing of costs, we reviewed to ensure that CAI followed its internal policies and procedures, Task Order requirements and federal guidelines related to procurement. No exceptions were noted. As such, the corrective action has been adequately implemented.

- Finding 2018-03 (Procurement Manual Protocol Not Followed): The audit firm noted that CAI did not have complete purchase orders or obtain proper approval of purchase orders for goods and services procured in accordance with CAI policy.

Status: During our testing of costs, we reviewed to ensure CAI followed its internal policies and procedures for the procurement of goods and services. No exceptions were noted. As such, the corrective action has been adequately implemented.

- Finding 2018-04 (Annual Non-Expendable Inventory Property Report Not Submitted): The audit firm noted that CAI did not submit the required annual non-expendable property report to USAID as required .

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under
Task Order No. AID-306-TO-16-00003
Afghan Children Read (ACR)

Detailed Audit Findings

(Continued)

Status: We obtained the non-expendable inventory report for the audit period and tested to ensure that inventory items were reported in accordance with federal requirements. No exceptions were noted. As such, the corrective action has been adequately implemented.

Financial Audit Report: SIGAR 20-01 "USAID's Afghanistan Workforce Development Program: Audit of Costs Incurred by CAI" under Contract No. AID-306-C-12-00007 for the period October 1, 2015 through June 30, 2018, which was conducted by Williams, Adley & Company-DC, LLP on Behalf of SIGAR, and issued by SIGAR on October 3, 2019

- Finding No. 2019-1 (Missing Inventory Disposition Documentation): The audit firm noted that CAI was unable to provide documentation to support the approval of the disposition of certain inventory items.

Status: We obtained the non-expendable inventory report for our audit period and tested to ensure that inventory items were reported in accordance with federal requirements. No exceptions were noted. As such, the corrective action has been adequately implemented.

Financial Audit Report: SIGAR 14-18 "USAID's Building Education Support Systems for Teachers and Community Based Stabilization Grants Projects: Audit of Costs Incurred by CAI" under Task Order No. 306-M-00-06-00508-00 for the period January 27 2006 through August 31, 2011, and Cooperative Agreement No. 306-A-00-10-00513-00 for the period March 7, 2010 through March 6, 2012, which was conducted by Mayer Hoffman McCann P.C. on Behalf of SIGAR, and issued by SIGAR on January 7, 2014

- Finding No. 2013-1 (Costs in Excess of Budget): The audit firm noted that CAI exceeded budgeted amounts for direct labor and indirect costs.

Status: CAI had not exceeded the budgeted line items for our audit. As such, the corrective action has been adequately implemented.

- Finding 2013-2 (Missing Documentation): The audit firm noted that certain direct labor costs were not supported by timesheets.

Status: We selected a sample of labor costs and reviewed to ensure that proper documentation was provided. No exceptions were noted. As such, the corrective action has been adequately implemented.

- Finding 2013-3 (Ineligible Expenses): The audit firm noted that certain transportation costs were charged without proper approval from USAID.

Status: We selected a sample of costs and reviewed to ensure that all costs were allowable per the Task Order with USAID. No exceptions were noted. As such, the corrective action has been adequately implemented.

CREATIVE ASSOCIATES INTERNATIONAL

Financial Audit of Costs Incurred Under
Task Order No. AID-306-TO-16-00003
Afghan Children Read (ACR)

Detailed Audit Findings

(Continued)

Special Project: SIGAR 19-59-**SP** "Afghan Children Read Program: Books Distributed Were Received and Used but Problems Existed with Printing, Distribution, and Warehousing, which was conducted by SIGAR during the period November 2018 through August 2019, and issued by SIGAR on September 9, 2019

- Finding 1: SIGAR noted that while books received for the program were distributed, but problems were noted in the quality of books provided.

Status: Through inquiry with CAI management, CAI indicated that it replaced book printers and began providing community education to enlist the book users to keep the books in good quality. As such, the corrective action has been adequately implemented.

- Finding 2: SIGAR noted that through review of a warehouse where books are kept, a significant number of books had been in storage for at least two years.

Status: Through inquiry with CAI management, CAI indicated that it has continued discussions with the Afghan Ministry of Education and Provincial leaders to determine the best method for distribution of the books. As such, this corrective action is ongoing.

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). 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
- Email: 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
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202