




USAID
FROM THE AMERICAN PEOPLE

October 29, 2014

UNCLASSIFIED
MEMORANDUM

TO: Mr. John F. Sopko,
Special Inspector General for Afghanistan Reconstruction (SIGAR)

FROM: Dan Grant, Acting Assistant to the Administrator in the
Office of Afghanistan and Pakistan Affairs (OAPA) 

SUBJECT: USAID Response to SIGAR-15-05-SP Inquiry Letter: USAID's
Questioned Costs

I appreciate Special Inspector General for Afghanistan Reconstruction (SIGAR) report 15-05-SP bringing to our attention your concerns about USAID's relationship with our contractors and how we follow up on findings of questioned costs in financial audits. The letter raises concerns about USAID's response to five audits: Tetra Tech - Associates in Rural Development (SIGAR Report 13-09); Counterpart International (SIGAR Report 14-15); Central Asia Development Group (SIGAR Report 14-20); Development Alternatives Inc. (SIGAR Report 13-10); and Chemonics: (SIGAR Report 13-1). We address each audit below and believe the decisions in each case are justified.

Questioned costs are those costs charged to a project by an implementing partner (IP) which were reviewed by an independent auditor analyzing sample charges and deemed to be insufficiently supported by the evidence provided or which appear not to be within the agreed project budget. No amount of waste, fraud or abuse is acceptable to USAID and we are committed to recovering all appropriate taxpayer funds from our implementing partners.

USAID works in conflict zones all over the world, where normal operations are extremely challenging. It is our practice to audit our implementers and to seek an accurate accounting of taxpayer funds. To receive an accurate accounting, USAID may allow the partner additional time to respond to requests for documentation regarding questioned costs due to the considerable administrative and managerial challenges faced by an entity operating in a war zone or an unpredictable environment such as Afghanistan. Our objective is to review the accounting as thoroughly as possible to ensure we get it right.

As SIGAR's letter questions the process by which cost allowability decisions were reached in five cases, we would like to describe the cost allowability process that USAID follows. In the event questioned costs are identified, USAID reviews the costs identified by the auditors and evaluates these costs using the Federal Acquisition Regulations (FAR), specifically FAR 31.201-2, Determining Allowability; FAR 31.202, Direct Costs; and FAR 31.203, Indirect Costs. For grants to non-profit organizations, USAID evaluates claimed costs in accordance with OMB A-122, Cost Principles for Non-Profit Organizations.

The criteria used by Contracting and Agreement Officers to grant extensions for providing supporting documentation of questioned costs is whether a valid reason exists for additional time. If additional time is needed to consider all appropriate facts, our practice is to grant additional time, within reason. USAID recognizes the difficulties that implementing partners face when operating in conflict zones like Afghanistan in support of U.S. Government objectives, often in remote locations with limited access to transportation and a lack of reliable communications; regardless, accurate accounting for all questioned costs is required.

USAID has a responsibility to respond to audit recommendations made by SIGAR. As part of this process, SIGAR makes, and USAID welcomes, recommendations to determine the allowability of costs, and USAID seeks recovery as appropriate. Generally, the responsibility to make decisions to recover questioned costs rests with USAID's Contracting and Agreement Officers (COs and AOs). If SIGAR disagrees with a final management decision regarding questioned costs, Agency rules provide that the Assistant Administrator for Management (AA/M) serves as USAID's Audit Follow-Up Official, in accordance with OMB Circular A-50 (see Automated Directives System (ADS) 595.2(d)). As the designated follow-up official, the AA/M is responsible for resolving disagreements between Agency management and SIGAR. SIGAR does not serve in the capacity of follow-up official, contrary to the position advanced in the letter.

We welcome SIGAR review of final decisions on allowability and stand ready to provide to SIGAR for review any documentation relied upon in reaching an allowability decision. However, in the cases of the TetraTech and Counterpart International agreements cited in SIGAR's letter, USAID informed SIGAR of its allowability decisions, and, upon receiving the revised recommendations, SIGAR provided written confirmation that it agreed each of the audits was closed.

Specific to SIGAR's letter on recent questioned costs of our implementing partners, USAID's justifications for the allowed costs cited in the SIGAR report are detailed below:

Tetra Tech - Associates in Rural Development: (SIGAR Report 13-09)

USAID received further information from TetraTech, including written and oral responses regarding indirect costs. This additional supporting documentation included budget realignments with justification, vouchers supporting disbursed costs, work plan documentation, and community mobilization plans. An additional review by USAID determined the auditor only considered fringe benefits and material handling, and had not accounted for other indirect costs approved under the contract, including overhead and general & administrative costs. When these items were added, the total indirect costs were within the total estimated cost and were therefore allowed.

Counterpart International (CI): (SIGAR Report 14-15)

USAID received written and oral responses from the CI including 31 attachments to the appeal letter and four sworn affidavits from former staff members attesting to the payment of various invoices, the veracity of other expenditure and the integrity of Counterpart's systems.

The Agreement Officer (AO) in making his determination relied upon this information as well as a Mission Office of Financial Management's (OFM) analysis of the financial documentation supplied. The AO considered the fact that the questioned costs were rigorously audited and accepted each year as part of the A-133 audits.

Central Asia Development Group (CADG) : (SIGAR Report 14-20)

USAID determined that \$5,624,554 out of total questioned costs of \$7,863,091 was allowable.

USAID received written submissions and voluminous documentation from the CADG, the size of which prohibited electronic transmission. The need to send this documentation by mail and hand-delivery resulted in delays in resolving the questioned costs recommendations. The documentation received included numerous timesheets, payment records, vouchers and invoices, inspection reports, price analysis and competition forms, price quotations and management approvals. OFM undertook a thorough examination of this documentation and provided the AO with a detailed analysis.

CADG was given a total of 184 days (approximately six months) to provide responses and supporting documentation. At all relevant junctures the extensions were deemed to be reasonable and necessary to reach the best informed decision on allowing or disallowing costs; moreover, the extensions could be accommodated within the target dates set by SIGAR.

Development Alternatives Inc. (DAI): (SIGAR Report 13-10)

USAID reviewed documentation provided by the DAI which was sufficiently voluminous and complex that USAID commissioned a second review audit. This second, independent audit found over \$23 million (out of \$25 million) in questioned costs was justified. In addition, DAI provided documentation with respect to \$1,447,419 in questioned costs incurred by its subcontractor, Bearing Point. Delays were encountered due to difficulties in securing information regarding subcontractor costs, as Bearing Point was dissolved in 2009.

Chemonics: (SIGAR Report 13-1)

USAID determined \$13,555,895 out of total questioned costs of \$13,555,998 was allowable after commissioning a second, independent audit.

Chemonics provided USAID with written submissions and voluminous documentation (contained in two separate CDs provided at different junctures and in respect of different aspects of the questioned costs). The documentaion includes numerous timesheets, payment records, vouchers and invoices, inspection reports, price analysis and competition forms, price quotations and management approvals. OFM undertook a thorough examination of this documentation and provided the CO with a detailed analysis. The CO also considered an independent review audit relating to \$5,935,170 of the questioned costs. The amount of documentation submitted required substantial review time to ensure a proper analysis.

This independant review formally commenced at the beginning of August 2014, and the report was received on September 10, 2014. Thereafter, USAID sent a Revised Management Decision to SIGAR on September 20, 2014. In total, Chemonics was provided with 49 days to respond and to supply additional documentation to support the \$13,555,998 in questioned costs.

Opportunity to Review

SIGAR's letter raises concerns about the opportunity to review management decisions. USAID is required to respond to recommendations made by SIGAR. As stated in ADS 595.3.1.4, "If the recommendation is from a financial audit of a contractor or grantee, the action office will be notified within 30 calendar days that the OIG acknowledges a revised management decision. If the OIG office fails to take action on the request within 30 calendar days, a revised management decision will have been made."

In the case of both Tetra Tech and Counterpart, SIGAR was advised of the revised management decisions and in both cases agreed in writing with the decisions.

For Tetra Tech, USAID sent a letter to SIGAR in May 2014. Unfortunately, it was sent to an email address unbeknownst to USAID that was no longer in use at SIGAR. The letter was resent to SIGAR in July 2014. SIGAR agreed to close out the recommendation July 14, 2014, and did not ask any additional questions.

For Counterpart, SIGAR was informed in July 2014 about the revised decision and SIGAR agreed to close the recommendation on July 16, 2014.

In summary, SIGAR had an opportunity as provided by the ADS to raise concerns on whether USAID's actions would adequately address the audit recommendations; however, in both cases SIGAR agreed to close the recommendation.