



Office of Inspector General

December 26, 2011

MEMORANDUM

TO: USAID/Afghanistan Acting Director, Jeffrey Ashley

FROM: OIG/Afghanistan Acting Director, Donovan Strydom /s/

SUBJECT: Review of Responses to Internal Audit Findings on the Local Governance and Community Development Project (Report Number F-306-12-001-S)

This memorandum transmits our final report on the subject review. This report contains seven recommendations and identifies approximately \$6.6 million in questioned costs. In finalizing the report, we carefully considered USAID/Afghanistan's comments on the draft, and we have included them (without attachments) in Appendix II.

Based on the mission's comments and the supporting documentation, management decisions have been reached on Recommendations 1 through 7. Please coordinate final action with USAID's Audit Performance and Compliance Division.

I want to thank you and your staff for the cooperation and courtesies extended to us during this review.

SUMMARY

Launched in October 2006, the Local Governance and Community Development Project sought to promote stability by (1) helping the Government of the Islamic Republic of Afghanistan extend its reach into unstable areas and engage populations most likely to support insurgents, (2) creating an environment that encourages local communities to take an active role in their own stability and development, and (3) addressing the underlying causes of instability and support for the insurgency through integrated community development activities. The project focused on Kandahar City and Maywand District.

Development Alternatives Inc. (DAI) implemented the project through a \$349 million contract that ended on August 31, 2011. According to mission records dated October 2011, USAID/Afghanistan obligated \$328 million and disbursed \$317 million for project activities.

Despite the volatile environment, according to a project fact sheet published in June 2011, the project had many successes, some of which include:

- Completion of more than 2,500 community stabilization projects, representing an investment of \$109 million.
- Generation of immediate short-term employment totaling 1.5 million employment days through cash-for-work activities.
- Completion of significant and lasting improvements in rural infrastructure, including gravel roads, footbridges, and irrigation systems.

Yet problems with project implementation have come to light. In March 2011, the Office of Inspector General (OIG) received a copy of a DAI internal audit report,¹ dated September 23, 2009, detailing financial and internal control problems occurring from August 2008 through August 2009. DAI had not provided this report to USAID or returned any funds to USAID related to questioned expenditures identified in the report.

OIG conducted this review to assess selected problems raised in the internal audit report and to determine whether DAI incurred questionable costs on the project. The review found the following areas of concern:

- Deficient procurement practices led to questioned costs (page 4).
- DAI did not liquidate cash advances promptly, making them uncollectible (page 7).
- DAI improperly charged the project for upgraded seating on international flights (page 8).

Questioned costs associated with these issues are summarized in the following table.

¹ Development Alternatives Inc., Internal Audit Report, "Afghanistan Local Governance and Community Development (LGCD) Project," September 23, 2009.

Summary of Questioned Costs

Finding	Questioned Costs (\$)
1. Deficient procurement practices	6,544,619
2. Grant advances that were not cleared promptly	48,530
3. Upgraded international travel costs charged to the project	4,782
Total	6,597,931

The report recommends that USAID/Afghanistan:

1. Determine the allowability of and recover as appropriate from Development Alternatives Inc. the \$748,683 in costs related to vehicles leased without proper approvals and without full and open competition (page 5).
2. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, the \$352,500 in questionable lease payments for Local Governance and Community Development Project office space and guesthouses identified in the DAI internal audit report (page 6).
3. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, \$2,019,036 in goods and services procured without adequate competition and supporting documentation (page 6).
4. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, \$3,424,400 in inadequately supported fuel purchases for the Local Governance and Community Development Project (page 7).
5. Determine whether Development Alternatives Inc. billed USAID for \$48,530 in unliquidated and uncollectible project advances and, if so, disallow and recover the costs (page 7).
6. Determine the allowability of and recover from Development Alternatives Inc., as appropriate, the \$4,782 in unapproved seat upgrades on international flights charged to the Local Governance and Community Development Project (page 9).
7. Arrange for a financial audit of the Local Governance and Community Development Project to help ensure that all the costs charged to USAID were reasonable, allowable, and allocable (page 9).

Detailed results follow. Appendix I contains a description of the review's scope and methodology, and Appendix II contains the full text of management comments. Our evaluation of management comments is on page 10.

REVIEW RESULTS

Deficient Procurement Practices Led to Questioned Costs

Important elements in determining whether a cost is allowable include determining whether the cost is reasonable, adequately supported, and incurred in compliance with the terms of the contract. Moreover, the Federal Acquisition Regulation (FAR) 31.201–3(a) notes that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. The FAR also notes that there is no presumption of reasonableness attached to the incurrence of costs by a contractor.

FAR 31.201–3(b) refines the concept of reasonableness, stating that whether a cost is reasonable depends on whether:

- It is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor’s business or the contract performance.
- It accords with generally accepted sound business practices, arm’s length bargaining, and federal and state laws and regulations.
- It flows from the contractor’s responsibility to the government, other customers, the owners of the business, employees, and the public at large.
- It represents a significant deviation from the contractor’s established practices.

In the area of procurement, using competitive processes is generally recognized as a sound business practice. In fact, promoting competition is one of the guiding principles of the FAR² and is generally required by the United States Code governing public contracts.³

DAI’s procurement manual for the project acknowledges the importance of competition, noting that “[a]ll contracts for goods or services must be awarded on a competitive basis to the maximum extent practical.” The manual incorporates policies and procedures to help ensure that competition and other sound business practices are followed in the company’s procurements. Some of the procedures in this manual include the following:

- Identifying potential suppliers
- Soliciting quotations and evaluating offers
- Identifying procurements that require special approvals (e.g., DAI’s manual requires that procurements of \$100,000 or more be approved by the USAID contracting officer).
- Negotiating terms and conditions with bidders that make the best offers.

² FAR 1.102(b)(1)(iii).

³ 41 U.S.C. 253(a)(1) notes that full and open competition shall be obtained unless otherwise stated in the United States Code or otherwise authorized by statute.

- Selecting the supplier, and generating and awarding the purchase order or contract.
- Compiling all documents and closing the procurement file.

Despite these well-defined processes, procurements for the project had several deficiencies. Procurements were noncompetitive and inadequately documented, and they lacked the necessary approvals. These deficiencies, highlighted in the DAI internal audit report, arose in procurements of various types and are discussed in the following sections.

Procurement of Leased Vehicles. Deficiencies existed in the procurement of leased vehicles. For example, the contract files for Tolo Afghan Transportation Company, Hejran Hejrat Co., and Watan Group lacked preaward documents, bid solicitations, other vendor's quotations, and approvals from DAI procurement managers. A subsequent closeout review conducted by DAI highlighted this missing documentation.

- In one incident, a bid submitted for one procurement (to provide armored and unarmored vehicles) was copied and included as proof of competitive bidding in another procurement. Someone had used correction fluid, such as Wite-Out, to obscure relevant information and then placed the same bid in another procurement file as supporting evidence of competition.
- DAI's security subcontractor, Edinburgh International, also failed to conduct competitive bidding for vehicle leases.
- In violation of its own procurement practices as outlined in its procurement manual, DAI entered into vehicle leases exceeding \$100,000 without obtaining approval from the USAID contracting officer.
- In violation of its contract, DAI failed to obtain prior written approval from the USAID contracting officer before leasing motor vehicles.⁴

The combined cost of these DAI and Edinburgh International vehicle leases was \$748,683.

While DAI took subsequent actions to ensure compliance with the terms of its contract, the lack of adequate competitive procurements for several leased vehicles and the firm's failure to obtain necessary contracting officer approvals violated the terms of its contract. This lack of competition could have resulted in excessive lease prices, wasting funds that could have been better used elsewhere in the project. We are making the following recommendation to address this situation.

Recommendation 1. *We recommend that USAID/Afghanistan determine the allowability of \$748,683 in questioned costs related to vehicles leased without proper approvals and without full and open competition and recover from Development Alternatives Inc. any amounts determined to be unallowable.*

Building Leases. The internal DAI audit report also highlighted noncompetitive leasing of offices and guesthouses for the project. The internal auditors reviewed certain leases for offices and guesthouses and confirmed that DAI had not conducted full and open competition in its rental of office space and guesthouses.

⁴ USAID Acquisition Regulation 752.225–70, “Source, Origin, and Nationality Requirements.”

A listing compiled by the DAI auditors of the houses leased for the Local Governance and Community Development Project indicated that \$6.7 million in rents had been paid over 4½ years of implementation. OIG review of a sample of leases for office space and guesthouses revealed that project personnel had entered into several leases without the required competition, and all of the documentation reviewed supporting payment of those rents lacked signatures documenting required approvals.

In addition, some rental payments were apparently made to the project cashier, instead of to the lessors identified in the lease agreements. DAI staff explained that because many of the property owners did not have bank accounts, lease payments needed to be in cash. Reportedly, the cashier would cash the checks and pay the monthly rental. However, OIG found no documentation showing that the lessors had signed for receipt of their monthly rents. At the time of this review, DAI's contract was ending, and most of the responsible individuals had left the project. The DAI staff members interviewed during the review were unable to answer most inquiries concerning the building leases. A lack of competition led to excessive rental costs being paid for rental property for the project and thus causing funds to be used for rental payments that could have been put to better use elsewhere in the project.

Because DAI's procurement and payment of select building leases as described above do not reflect sound business practices, we question the \$352,500 paid for the leasing of the houses listed in the DAI internal audit report.

Recommendation 2. We recommend that USAID/Afghanistan determine the allowability of \$352,500 in questioned costs associated with lease payments for the Local Governance and Community Development Project office space and guesthouses disclosed in the Development Alternatives Inc. internal audit report, and recover from Development Alternatives Inc. any amounts determined to be unallowable.

Services Contracts. Analysis of 45 payment vouchers and the associated procurement documents revealed that 58 percent of the sampled procurements occurred without competition. This amounted to \$2,019,036 in noncompetitive procurements. In addition, some of the procurement files lacked necessary approvals and contained unsigned purchase orders. The absence of documentation evidencing competitive bidding and proper approvals leaves the reasonableness of the costs paid for the sampled procurements in question. We believe these problems stem from a lack of supervision of locally employed DAI staff and therefore, make the following recommendations.

Recommendation 3. We recommend that USAID/Afghanistan determine the allowability of \$2,019,036 in questioned costs related to services procured without full and open competition and recover from Development Alternatives Inc. any amounts determined to be unallowable.

Fuel Supply Service Contracts. Another area of concern highlighted by the DAI internal audit report was that a former project employee had issued unlimited quantities of fuel vouchers to drivers and project staff for fuel purchases to be filled at night in order for vehicles to be ready for service the next morning. The DAI report states that "[t]his demonstrates grossly inadequate controls, as there is no verification process that fuel was needed or has been obtained." The DAI internal audit also noted that "in most cases, fully authorized fuel slips requested '0' fuel (unlimited), [and] odometer readings as well as the driver's name are not recorded. Under this practice, in essence, a blank check is issued to obtain indefinite amounts of fuel."

In response to the internal audit report, DAI managers reported that the company had changed its vehicle fuel policies and procedures and moved to ensure that the former fleet manager had no responsibilities for authorizing the purchase of fuel.

An OIG review of DAI fuel purchases from three suppliers revealed that, while adequate documentation was found on file for purchases from two of the suppliers, DAI staff was unable to locate the contract file, payment vouchers, or project receipts for fuel purchases totaling \$3,424,400 from the third supplier—Khyber Afghan Petroleum. DAI staff had no explanation for this lack of documentation.

As a USAID contractor, DAI is responsible for maintaining adequate documentation of the costs incurred on USAID contracts. Without such documentation, it is not possible to establish conclusively that costs claimed have been incurred, are allocable to the contract, and comply with the terms of the contract. The cognizant USAID contracting officer has the authority to disallow costs that are inadequately supported. Accordingly, we make the following recommendation.

Recommendation 4. We recommend that USAID/Afghanistan determine the allowability of and recover from Development Alternatives Inc., as appropriate, \$3,424,400 in inadequately supported fuel purchases for the Local Governance and Community Development Project.

DAI Did Not Liquidate Cash Advances Promptly, Making Them Uncollectible

As part of its implementation strategy for the Local Governance and Community Development Project, DAI agreed to award grants to U.S. and non-U.S. governmental organizations for institutional capacity-building activities that would support the achievement of project activities and outcomes. These grants were made to stimulate the effectiveness of key institutions, such as local government service providers or citizen-led community mobilization groups, as well as for other purposes. DAI issued its grant advances to its field employees, who are required to liquidate the advances within a prescribed amount of time as stipulated in its grants manual.

A listing of outstanding cash advances for DAI's grants included \$48,530 in cash advances issued to DAI employees. The advances had not been liquidated and were uncollectible. Some of the advances dated back to September 2009. Grant advances were not liquidated in a timely manner because some field staff members had left the project without leaving records to substantiate the advances taken, making them uncollectible.

Unliquidated and uncollectible advances are not incurred costs that can be charged to DAI's contract and are considered unallowable. According to DAI personnel, none of these advances were charged to the project as locally incurred costs. Nevertheless, USAID should confirm this fact, as most of the DAI staff were no longer employed on the project and DAI was unable to support its assertion that these advances were not charged to the contract. We therefore make the following recommendation.

Recommendation 5. We recommend that USAID/Afghanistan determine whether Development Alternatives Inc. billed USAID for \$48,530 in unliquidated and uncollectible

project advances and, if so, determine the allowability of these costs and recover from Development Alternatives Inc. any amounts determined to be unallowable.

DAI Improperly Charged the Project for Upgraded Seating on International Flights

Federal regulations provide criteria for determining whether a cost is reasonable. FAR 31.205–46(b) states:

Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable except when . . . [the lowest priced airfare] accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased costs that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above airfare to be allowable, the applicable condition(s) set forth must be documented and justified [emphasis added].

In addition, the Federal Travel Regulation, codified at 41 CFR 301–10.124, states that passengers:

may obtain for a fee a more desirable seat choice within the coach-class cabin. These coach upgrade options are not considered a new or higher class of accommodation since the seating is still in the coach cabin. However, the use of these upgraded/preferred coach seating options is generally a traveler’s personal choice and therefore is at the traveler’s personal expense. An agency travel authorization approving official or his/her designee (e.g., supervisor of the traveler) may authorize and reimburse the additional seat choice fee according to internal agency policy.

Taken together, the two paragraphs above provide guidelines for assessing the reasonableness of upgraded coach seating. Such seating is generally at the traveler’s personal expense unless specifically authorized in accordance with travel policy and properly documented and justified.

However, contrary to the guidelines, DAI charged the cost for upgraded coach seating to the project. It did so although (1) the project had no written policy providing for these upgrades, (2) neither the DAI official nor the USAID official authorizing travel approved the upgrades, and (3) there was no written justification of the upgrades. In fact, DAI employees routinely upgraded their coach seats to economy-plus travel seats for their international trips and billed the costs to the project. When asked about the cost of these upgrades, DAI was unable to provide a comprehensive listing of these costs. We believe that these upgrades occurred because DAI project managers sought to provide their staff with more comfortable international travel, but did so in a manner that did not ensure those costs would be duly authorized, justified, and documented—and therefore reasonable. In addition, the lack of appropriate documentation could have resulted in misuse of program funds that could have been put to better use elsewhere in the program. These concerns were brought to the attention of OIG/Afghanistan by the contracting officer’s technical representative.

After numerous requests, DAI was unable to provide information on the upgraded economy-plus travel costs charged to the project. The international travel costs totaled \$4,257,722. In the absence of documentation for upgraded international travel costs, we initially questioned all of the travel costs for the project. Prior to the issuance of our final report, DAI provided an analysis of its upgraded international travel costs to USAID/Afghanistan, which determined that the actual unallowable travel cost related to seating upgrades, was \$4,782. We hereby recommend the following:

Recommendation 6. We recommend that USAID/Afghanistan determine the allowability of \$4,782 in questioned costs related to fees for unapproved seating upgrades charged to the Local Governance and Community Development Project and recover from Development Alternatives Inc. any amounts determined to be unallowable.

In light of the varied and material questionable costs detailed in the previous pages of this report, we are also making the following recommendation.

Recommendation 7. We recommend that USAID/Afghanistan contract for a financial audit of Development Alternatives Inc.'s Local Governance and Community Development Project to determine whether all the costs charged to USAID were reasonable, allowable, and allocable.

EVALUATION OF MANAGEMENT COMMENTS

The mission suggested that Recommendation 4 in the draft report be considered a summary recommendation because it involves conducting an audit of all the costs charged against the project. We agreed with the mission's suggestion, changing Recommendation 4 to Recommendation 7 and reordering our other recommendations as noted below.

After evaluating the mission's response to the draft report, we determined that management decisions have been reached on Recommendations 1 through 7. The following paragraphs provide our evaluation of mission comments on each recommendation.

Recommendation 1. The mission agreed to determine the allowability of \$748,683 in questioned costs related to vehicles leased without proper approvals and without full and open competition and recover from DAI any amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. A management decision has been reached on Recommendation 1.

Recommendation 2. The mission agreed to determine the allowability of \$352,500 in questioned costs associated with lease payments for the Local Governance and Community Development Project office space and guesthouses disclosed in the DAI internal audit report and to recover from DAI any amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. A management decision has been reached on Recommendation 2.

Recommendation 3. The mission agreed to determine the allowability of \$2,019,036 in questioned costs related to services procured without full and open competition and recover from DAI the amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. A management decision has been reached on Recommendation 3.

Recommendation 4. The mission agreed with Recommendation 4 (Recommendation 5 in our draft report) to determine whether \$3,424,400 in inadequately supported fuel purchases for DAI's Local Governance and Community Development Project were reasonable, allowable, and allocable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. A management decision has been reached on Recommendation 4.

Recommendation 5. The mission agreed with Recommendation 5 (Recommendation 6 in our draft report) to determine whether DAI billed USAID for \$48,530 in unliquidated and uncollectible project advances and, if so, determine the allowability of these costs and recover from DAI any amounts determined to be unallowable. The mission's cognizant contracting officer will determine the allowability of those questioned costs and initiate recovery of any unallowable costs through the issuance of a bill for collection. The target date for final action is February 28, 2012. A management decision has been reached on Recommendation 5.

Recommendation 6. The mission disagreed with the amount and description provided in Recommendation 6 (Recommendation 7 in our draft report), which recommended that the mission determine the allowability of \$4,257,722 in questioned costs related to fees for unapproved seating upgrades charged to the Local Governance and Community Development Project, and recover from DAI any amounts determined to be unallowable. The amount of unapproved seating upgrades included in the draft recommendation was the total amount of international travel costs, because DAI was unable to provide OIG with a complete, comprehensive listing of those upgrades. Subsequently, DAI provided an analysis of its upgraded international travel costs to USAID/Afghanistan, which determined that the actual unallowable travel cost related to seating upgrades was \$4,781.87 of which \$4,483.87 had already been recovered. The balance of \$298.00 is to be credited against future Invoices submitted by DAI. In response to the mission's comments, we modified the questioned cost of unapproved seating upgrades in the recommendation. The target date for final collection of this amount is December 31, 2011, and that is the target date for final action. A management decision has been reached on Recommendation 6.

Recommendation 7. The mission agreed with Recommendation 7 (Recommendation 4 in our draft report) to contract for a financial audit of DAI's Local Governance and Community Development Project to determine whether all the costs charged to USAID were reasonable, allowable, and allocable. In addition, USAID/Afghanistan indicated that it would include a closeout financial audit of the Local Governance and Community Development Project in its fiscal year 2012 audit management plan. The target date for final action is May 31, 2012. Based on the mission's comments, a management decision has been reached on Recommendation 7.

SCOPE AND METHODOLOGY

Scope

OIG's Country Office in Afghanistan conducted this review in accordance with the evidence and documentation standards in *Government Auditing Standards*,⁵ Paragraph 7.55 and Paragraphs 7.77 through 7.84. Those standards require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our review objective. We believe that the evidence obtained provides that reasonable basis.

The review was conducted in Afghanistan from June 19 through August 14, 2011, and covered activities from October 2006 through June 2011.

We conducted fieldwork at USAID/Afghanistan and at the contractor's headquarters office in Kabul, Afghanistan.

The review focused on the specific expenses related to the following problems disclosed in the DAI internal audit report.

- The project did not adhere to competitive bidding requirements outlined in DAI policies.
- No formal agreements/contracts existed with some service providers.
- Certain files lacked justification of noncompetitive procurement of services.
- The DAI Logistics Department's management of expendable inventory was inadequate.
- Records retention practices and backup and storage of project documents were inadequate.
- Controls over petty cash needed to be improved.
- A project employee issued blank fuel vouchers for fuel and generator fuel purchases and sometimes altered the quantities to reimburse the fuel supplier more than was actually delivered.
- Personnel files were not up-to-date.
- The project maintained a large balance of outstanding cash advances.

Because the review was performed when the project was ending, we were limited in the areas we could evaluate. Most of the staff members who were familiar with project operations had left, and very few personnel had a working knowledge of the issues raised in the internal audit report mentioned above. Because of these restrictions on the scope of the review, we limited our conclusions to the items we could review.

⁵ GAO-07-731G (July 2007 revision).

Methodology

During the review, we performed the following steps:

- Reviewed relevant prior audit reports on the project in Afghanistan.
- Interviewed available staff members at USAID/Afghanistan and the contractor's office to gain an understanding of the project and the relevant controls and procedures.
- Analyzed DAI's contract, correspondence between the mission and DAI, inventory reports, procurement documents, and evidence showing the receipt of goods by the contractor.
- Examined payment vouchers for the procurement of commodities and services and reviewed supporting documentation to support locally incurred costs.
- Evaluated the project's procurement contracts.
- Obtained supporting documentation for grant advances under the project.
- Requested (but did not receive) documentation to support the upgraded international travel costs billed to the project.

MANAGEMENT COMMENTS



MEMORANDUM

TO: Nathan Lokos, OIG/Afghanistan Director

From: S. Ken Yamashita, Mission Director /s/

DATE: November 20, 2011

SUBJECT: Review of USAID Afghanistan's Local Governance and Community Development Project (Report Number F-306-12-00X-S)

REFERENCE: DThomanek/KYamashita memo dated October 13, 2011

Thank you for providing the Mission with the opportunity to review the subject draft audit report. Discussed below are the Mission's comments on the findings and recommendations in the report.

I. Findings and Recommendations relating to the allowability of certain questioned costs

USAID/Afghanistan notes five recommendations (1, 2, 3, 5 and 6) that require final determination on the allowability of various questioned cost items. The recommendations also call for appropriate recovery of amounts determined to be unallowable.

***Recommendation 1.** We recommend that USAID/Afghanistan determine the allowability of \$748,683 in questioned costs related to vehicles leased without proper approvals and without full and open competition and recover from Development Alternatives Inc. any amounts determined to be unallowable.*

Mission Comments: USAID/Afghanistan concurs with this recommendation and requests OIG provide a breakdown of the questioned costs relating to vehicle leases.

***Recommendation 2.** We recommend that USAID/Afghanistan determine the allowability of \$352,500 in questioned costs associated with lease payments for the Local Governance and Community Development Project office space and guesthouses disclosed in the Development Alternatives Inc. internal audit report, and recover from Development Alternatives Inc. any amounts determined to be unallowable.*

Mission Comments: USAID/Afghanistan concurs with this recommendation.

Recommendation 3. *We recommend that USAID/Afghanistan determine the allowability of \$2,019,036 in questioned costs related to services procured without full and open competition and recover from Development Alternatives Inc. any amounts determined to be unallowable.*

Mission Comments: USAID/Afghanistan concurs with this recommendation and requests OIG provide a breakdown of the non-competitive procurement transactions.

Recommendation 5. *We recommend that USAID/Afghanistan determine whether \$3,424,400 of inadequately supported fuel purchases of Development Alternatives Inc.'s Local Governance and Community Development Project to determine whether all the costs charged to USAID are reasonable, allowable, and allocable.*

Mission Comments: USAID/Afghanistan concurs with this recommendation.

Recommendation 6. *We recommend that USAID/Afghanistan determine whether Development Alternatives Inc. billed USAID for \$48,530 in unliquidated and uncollectible project advances and, if so, determine the allowability of these costs and and recover from Development Alternatives Inc. any amounts determined to be unallowable.*

Mission Comments: USAID/Afghanistan concurs with this recommendation.

Actions Planned: Upon receipt from OIG of the breakdown of questioned costs with respect to Recommendations 1 and 3, the Mission's cognizant Contracting Officer (CO) will undertake review and will determine the allowability of the questioned costs. As appropriate, the Mission will initiate recoupment of funds (through the issuance of a bill for collection) for any costs determined to be unallowable.

Target Management Decision Date: February 28, 2012.

II. Finding and Recommendation related to questioned travel costs

Recommendation 7. *We recommend that USAID/Afghanistan determine the allowability of \$4,257,722 in questioned costs related to fees for unapproved seating upgrades charged to the Local Governance and Community Development Project, and recover from Development Alternatives Inc. any amounts determined to be unallowable. [emphasis added]*

Mission Comments: The Mission does not concur with this recommendation, namely, we do not concur with the amount and description of the questioned costs.

In its present form, the recommendation implies that the \$4.258 million in questioned costs pertain exclusively "to fees for unapproved seating upgrades." This finding is not consistent with the statements in paragraph 1 on page 9, which indicate the questioned costs pertain to the **total amount of international travel costs** incurred under the project, not simply to fees for seating upgrades.

OIG cites DAI's inability to provide supporting documentation on the upgraded economy-plus travel cost as basis for questioning the full amount of travel costs incurred. It should be noted that while the OIG audit field work was ongoing and subsequent to completion of the field work,

DAI had provided supporting information in response to USAID's inquiries regarding seating upgrades.

Following is a sequence of events outlining actions USAID and DAI have taken/are taking to address the seating upgrade issue:

- 1) USAID's cognizant Contracting Officer's Technical Representative (COTR) and Contracting Officer (CO), through emails dated June 23 and July 7, 2011, (Attachment 1), provided guidance to DAI on handling suspended costs for economy-class travel under Invoice Number 68. The CO instructed DAI to calculate the costs of unapproved seating upgrades and state how it plans to reimburse the U.S. Government for any unallowable cost.
- 2) On July 26, 2011, DAI provided USAID and OIG with an estimate of "less than \$5,000" unallowable costs for unapproved seating upgrades along with the basic methodology used to identify the unauthorized transactions (Attachment 2).
- 3) On September 14, 2011, in a memorandum attached to DAI Invoice Number 73 (Attachment 3), DAI identified the value of unallowable costs at \$4,781.87.
- 4) On October 12, 2011, in a memorandum attached to DAI Invoice Number 75, DAI submitted a detailed list of all Economy Plus transactions identified for reimbursement to USAID (Attachments 4 and 5).
- 5) On October 22, 2011, DAI submitted a memo further detailing the methodology used to search their records and identify Economy Plus transactions (Attachment 6).
- 6) DAI credited USAID for \$1,309.00 on Invoice Number 73 and \$3,174.87 on Invoice Number 75, and stated it would credit the remaining \$298.00 against the October 2011 invoice to be submitted for payment in November 2011. The CO has reviewed DAI's methodology in identifying Economy Plus transactions and has determined its acceptability.
- 7) Upon receipt of DAI's October 2011 invoice, the Mission will ascertain that the remaining unallowable cost of \$298.00 has been credited against DAI's claims.

Management Decision: The Mission has determined the actual unallowable travel costs related to seating upgrades is \$4,781.87, of which \$4,483.87 has been recovered through appropriate credits against DAI's Invoice Numbers 73 and 75 (Attachments 7 and 8). As indicated above, DAI plans to credit USAID the remaining \$298.00 in invoices submitted this November. The Mission, therefore, requests OIG's acknowledgment of the management decision.

Target Closure Date: December 31, 2011 (upon full recovery of the total disallowed costs of \$4,781.87)

III. Recommendation to undertake a full financial audit

Recommendation 4: *We recommend that USAID/Afghanistan contract for a financial audit of Development Alternatives Inc.'s Local Governance and Community Development Project to determine whether all the costs charged to USAID are reasonable, allowable, and allocable.*

Mission Comments: The Mission concurs with Recommendation 4. The Mission believes that this item could well be considered a summary recommendation, since it calls for an audit of all costs charged against the LGCD project, encompassing costs questioned under Recommendations 1-3 and Recommendations 5-7. To this end, as OIG deems appropriate,

the Mission suggests the recommendations be renumbered so Recommendation 4 would appear as the last recommendation.

Actions Planned: USAID will include in its FY 2012 audit management plan, a closeout financial audit of LGCD covering costs incurred in the United States, as well as costs incurred in Afghanistan.

Management Decision: The Mission deems the above action plan adequately addresses recommendation 4 and, therefore, requests OIG's concurrence that a management decision has been reached.

Target Completion Date: May 31, 2012

cc: OAPA: Harry Dorcus
Donald Niss
Russell Porter

Attachments:

1. COTR and CO emails to DAI dated June 23 and July 7, 2011 re Invoice Number 68
2. Email dated July 26, 2011 from DAI to USAID on analysis of Economy Plus transactions
3. Memo dated September 14, 2011 on Economy Plus credits attached to DAI Invoice Number 73
4. Memo dated October 12, 2011 on Economy Plus credits attached to DAI Invoice Number 75
5. Economy Plus transactions identified by DAI for reimbursement to USAID
6. Memo dated October 22, 2011 on methodology used to determine Economy Plus transactions
7. DAI Invoice Number 73 (pages showing applied credits only)
8. DAI Invoice Number 75 (pages showing applied credits only)