



MEMORANDUM

DATE: May 08, 2019

TO: USAID/Afghanistan Mission Director, Peter Natiello

FROM: USAID OIG Middle East and Eastern Europe Regional Office, Audit Director, James C. Charlifue /s/

SUBJECT: Costs Incurred Audit of Development Alternatives, Inc., Under Multiple Awards in Afghanistan, June 23, 2015, to December 31, 2017 (8-306-19-018-N)

This memorandum transmits the final audit report on the financial audit of costs incurred by Development Alternatives, Inc., under the following awards:

Award Name (Type)	Award Number	Period	Sub-implementer
Agricultural Credit Enhancement (ACE-II)	AID-306-BC-15-00005	June 23, 2015, to December 31, 2017	N/A
Regional Agricultural Development Program - East (RADP East)	AID-306-C-16-00011	July 21, 2016, to September 30, 2017	N/A
Musharikat	AID-306-TO-15-00073	September 2, 2015, to December 31, 2017	N/A

The agency contracted with the independent certified public accounting firm Crowe LLP to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards.

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the Development Alternatives, Inc.'s, (DAI) schedule of costs incurred; the effectiveness of its internal control; or its

compliance with the award, laws, and regulations.¹

The audit objectives were to: (1) express an opinion on whether the schedule of costs incurred for the period audited, was presented fairly, in all material respects; (2) evaluate the DAI's internal controls; (3) determine whether DAI, complied with award terms and applicable laws and regulations; and (4) determine whether the auditee has taken corrective action on prior audit recommendations. To answer the audit objectives, the audit firm performed the subject audit that covered \$28,154,242 for the period from June 23, 2015, to December 31, 2017.

The auditors expressed an unmodified opinion on the schedule of costs incurred and identified \$196,258 in questioned costs (\$180,068 ineligible and \$16,190 unsupported). The auditors identified eight instances of material noncompliance related to:

- 1) Inadequate documentation for expenditures (Musharikat)
- 2) Inaccurate property records (ACE-II, Musharikat, RADP-East)
- 3) Inadequate control over government property records (ACE-II, Musharikat, RADP-East)
- 4) Lack of compliance with the Mission Order 201.05 (RADP-East)
- 5) Inadequate control over reporting (Musharikat, RADP-East)
- 6) Unallowed non-labor G&A indirect costs (RADP-East)
- 7) Unsubstantiated labor costs (ACE-II)
- 8) Incorrect foreign currency translation (ACE-II, Musharikat, RADP-East)

The auditors identified two material weaknesses in internal control related to 1) inaccurate property records and 2) unsubstantiated labor costs that are also identified as material instances of noncompliance (no. 2 and 7 above). Although we are not making a recommendation for the six significant deficiencies noted in the report, we suggest that USAID/Afghanistan determine if the recipient addressed the issues noted.

To address the issues identified in the report, we recommend that USAID/Afghanistan:

Recommendation 1. Determine the allowability of \$196,258 in questioned costs (\$180,068 ineligible, \$16,190 unsupported) on pages 10, 11, and 12 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Development Alternatives, Inc., corrects the eight instances of material noncompliance detailed on pages 23 – 34 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").