

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 22-24 Financial Audit

USAID's Afghanistan Trade Show Support
Activity: Audit of Costs Incurred by Davis
Management Group Inc.



MAY
2022

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On June 7, 2018, the U.S. Agency for International Development (USAID) awarded a 30-month, time and materials contract worth \$3,999,174 to Davis Management Group Inc. (Davis) to support the Trade Show Support Activity in Afghanistan. The objective of the activity was to, among other things, organize, support, and facilitate trade shows, business events, exhibitions, or other forums where Afghan businesses could interact with potential buyers and importers. The contract had a period of performance from June 11, 2018, through December 12, 2020. USAID modified the contract four times, and increased the total funding to \$6,921,728. The contract's period of performance remained unchanged.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$6,240,939 in costs charged to the contract from June 11, 2018, through December 12, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Davis's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Davis has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Davis's Special Purpose Financial Statement (SPFS). See Conrad'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 wherein Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

May 2022

USAID's Afghanistan Trade Show Support Activity: Audit of Costs Incurred by Davis Management Group Inc.

SIGAR 22-24-FA

WHAT SIGAR FOUND

Conrad identified three significant deficiencies in Davis's internal controls and three instances of noncompliance with the terms of the contract. For example, Conrad identified ten instances in which "no show charges" for trade show attendees' hotel accommodations were charged to the program. In addition, Conrad found that Davis charged USAID for luxury vehicle transportation provided to VIP trade shows attendees. Furthermore, Davis was unable to provide source documentation or sufficient support for how it procured vendors for materials purchased.

Because of the significant deficiencies in internal controls and instances of noncompliance, Conrad identified \$247,081 in total questioned costs, consisting of \$170,106 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$76,975 in ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$965	\$0	\$965
Material	\$64,280	\$159,658	\$223,938
General and Administrative	\$11,730	\$10,448	\$22,178
Total Costs	\$76,975	\$170,106	\$247,081

Conrad identified one pre-award accounting survey that was relevant to Davis's contract. The survey had six findings that could have a material effect on the SPFS. Conrad conducted follow-up procedures and concluded that Davis took adequate corrective action on two of the findings. Conrad found that Davis had not taken adequate corrective action with four of the findings, such as maintaining proper documentation and charging unallowable costs.

Conrad issued a modified opinion on Davis's SPFS due to the significant amount of total questioned costs.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$247,081 in questioned costs identified in the report.
2. Advise Davis to address the report's three internal control findings.
3. Advise Davis to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 12, 2022

The Honorable Samantha Power
Administrator, U.S. Agency for International Development

Mr. Peter Duffy
Mission Director, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Davis Management Group Inc. (Davis) under a contract from the U.S. Agency for International Development (USAID) to support the Trade Show Support Activity in Afghanistan.¹ The objective of the activity was to, among other things, organize, support, and facilitate trade shows, business events, exhibitions, or other forums where Afghan businesses could interact with potential buyers and importers. Conrad reviewed \$6,240,939 in costs charged to the contract from June 11, 2018, through December 12, 2020. Our contract with Conrad 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, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$247,081 in questioned costs identified in the report.**
- 2. Advise Davis to address the report's three internal control findings.**
- 3. Advise Davis to address the report's three noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Davis's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Davis's internal control or compliance with the contract, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-211)

¹ The contract number is 72030618C00014.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

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April 6, 2022

Board of Directors
Davis Management Group Inc.
Washington, DC 20018-4311

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Davis Management Group ("Davis") Special Purpose Financial Statement ("SPFS") for costs incurred under Contract No. 72030618C00014 ("Contract") awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity ("Program"), for the period of June 11, 2018 through December 12, 2020.

On January 31, 2022, we provided SIGAR with a draft report reflecting our audit procedures and results. Davis received a copy of the report on March 4, 2022; and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Davis. Davis' responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this Contract.

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Perera", with a horizontal line underneath.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Background

Effective June 11, 2018, the United States Agency for International Development/Afghanistan ("USAID") awarded a Time and Materials Contract ("Contract") No. 72030618C00014 to Davis Management Group Inc. ("Davis") for the Trade Show Support ("TSS") Activity. The Contract is a time and materials contract utilizing fixed hourly rates for direct labor and materials reimbursed at cost. The Contract's purpose was to organize, support, and facilitate trade shows, business events, exhibitions, or other forums where Afghan businesses can interact with potential buyers and importers. In addition, the Contract was to build capacity in Afghan business and trade associations to independently organize and facilitate export events and represent their members more effectively. The Contract's objectives include activities such as:

1. Provide comprehensive support to export-related events.
2. Provide discrete support to export-related events.
3. Strengthen the capacity of Afghan business associations to organize and facilitate export promotion events.

As detailed in the *Summary of Contract* below, the approved budget was \$3,999,174. Throughout the duration of the Contract, there were four modifications to the Contract which provided incremental funding to the program and increase funding to \$6,921,728 with the period of performance remaining unchanged.

Summary of Contract

Contract Number	Original		As Modified		
	Budget (\$)	Original Date	No. of Modifications	Total Final Budget (\$)	End Date
72030618C00014*	\$3,999,174	06/11/2018 – 12/12/2020	4	\$6,921,728	No Change

* - Indicates Contract was modified

Davis is a woman-owned and operated event management firm specializing in global event planning, communications and outreach, training, administrative support, and staff augmentation services to the federal government and commercial clients.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Work Performed

Conrad LLP ("Conrad") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial and close-out audit of the Contract, as previously mentioned above, of Davis' Special Purpose Financial Statement ("SPFS") for costs incurred under the Contract, which totaled \$6,240,939 for the period June 11, 2018, through December 12, 2020.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit for the aforementioned Contract include the following:

- *Special Purpose Financial Statement ("SPFS")* – Express an opinion on whether Davis' SPFS for the Contract presents fairly, in all material respects, the 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 Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Davis' internal controls related to the Contract, assess control risk, and identify and report on significant deficiencies, including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Davis complied, in all material respects, with the Contract requirements and applicable laws and regulations, and identify and report on instances of material noncompliance with terms of the Contract 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 Davis has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred under the Contract during the period of June 11, 2018 through December 12, 2020, which totaled \$6,240,939. Our testing of the general and administrative cost was limited to determining that the general and administrative cost was calculated using the approved rate in the Contract.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

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 on August 12, 2021, with representatives of Davis, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

- During our planning phase, we obtained an understanding of Davis. The scope of our audit includes the Davis' management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of Davis through interviews, observations, and reading their policies and manuals. We interviewed top management and employees responsible for significant functions, programs, or both. In addition, we reviewed:
 - o Contract and all amendments;
 - o Any subawards;
 - o Any regulations that are specific to the Contract's requirements;
 - o Pre-award accounting system survey report.
- Performed financial reconciliation. We obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs were properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we

- Reconciled the costs on the SPFS to the Contract, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract, and reasonable;

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the general and administrative cost using the approved Contract rates to ensure that they were accurately applied.

Internal Controls Related to the Contract

To obtain reasonable assurance of Davis' financial reporting function and compliance with applicable laws and regulations, we reviewed Davis' internal control related to the Contract to gain an understanding of the implemented system of internal control. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Contract Requirements and Applicable Laws and Regulations

To determine whether Davis complied, in all material respects, with the Contract requirements, USAID Acquisition Regulation (AIDAR), Federal Acquisition Regulation, Part 31 ("FAR 31"), and any other applicable laws and regulations, we performed tests of transactions. We also identified and reported on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested from Davis to identify previous engagements that could have a material effect on Davis' SPFS. In addition, we conducted a search online of various governmental websites, including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on Davis' SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the *Status of Prior Audit Findings* section on page 32.

Exit Conference

An exit conference was held on January 13, 2022, via conference call. Participants included representatives from Conrad, Davis, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the fairness of the presentation of the SPFS.

We identified \$247,081 in total questioned costs, which were composed of \$76,975 in ineligible costs and \$170,106 in unsupported costs. Ineligible costs were explicitly questioned because they were unreasonable, prohibited by the Contract's provisions or applicable laws and regulations, or not related to the Contract. Unsupported costs were not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on Davis' SPFS. 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*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Control Findings

Our audit identified three internal control findings. The three internal control findings are significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 18.

Compliance Findings

The results of our testing disclosed three instances of non-compliance. See the *Independent Auditor's Report on Compliance* on page 20.

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*. Davis did not have any instance of alleged fraud during the audit period that could have potentially impacted the Program and the SPFS. As such, there are no further communications warranting additional consideration.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

The following summarizes the audit results:

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2022-01	Non-Compliance; Internal control – Significant Deficiency	Ineligible costs charged to the Program.	\$72,679	\$0	\$72,679
2022-02	Non-Compliance; Internal control – Significant Deficiency	Unsupported costs charged to the Program.	\$0	\$169,438	\$242,117
2022-03	Non-Compliance; Internal control – Significant Deficiency	Inadequate monitoring over costs incurred by the subcontractor.	\$4,296	\$668	\$247,081
Total Questioned Costs			\$76,975	\$170,106	\$247,081

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements to Davis' activities under the Contract, we identified one pre-award accounting survey report that contained six findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures included discussing with management corrective actions taken, reviewing any evidence of revised policies and procedures or other applicable recommended actions, as well as testing items similar to prior findings. Based on our review, Davis has taken adequate corrective action on two of the six prior findings but did not take adequate corrective action on four. See *Status of Prior Audit Findings* on page 32 for a detailed description of the prior findings and recommendations.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Summary of Davis' Responses to Findings

The following represents a summary of the responses provided by Davis to the findings identified in this report. The complete responses received can be found in **Appendix A** starting at page 35 of this report.

Finding 2022-01 – Davis did not agree or disagree with the finding. Davis stated that standard hotels charge a no-show charge, especially for large events like the TSS tradeshow, for not showing up or a cancellation 24 hours before arrival. Davis also stated the no show charges were incurred because the sponsored attendees did not show up at the originally planned date and did not inform Davis of their change in travel dates. Davis stated the 10 additional hours charged to the Program was due to a technical mistake. Davis stated that luxury vehicles are a standard practice, the organization would procure higher-end vehicles for high-level diplomats and government officials of other countries, for instance, the former President of Afghanistan.

Finding 2022-02 – Davis did not agree or disagree with the unsupported cost finding of \$169,438 and associated general and administrative costs. Davis stated that in November 2018, USAID conducted a pre-audit accounting system survey and identified a lack in policies and procedures. In response to the results of this survey, in December 2018, Davis hired a Director of Finance and Administration to address the issues. In addition, in January 2019, Davis established business policies and procedures to ensure compliance with their government clients. Davis also stated the organization continually evaluates these policies and procedures for improvement, practicality, and compliance.

Finding 2022-03 – Davis did not agree or disagree with the finding. Davis acknowledged there was an oversight and the refund and overcharged per diem has been refunded to Davis from the subcontractor. Davis stated that once they receive instructions, these costs will be refunded to the U.S. Government. Davis did not provide a response for the unsupported cost finding of \$668 and associated general and administrative costs.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Davis Management Group Inc.
Washington, DC 20018-4311

To the 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 Davis Management Group ("Davis") and the related notes to the Special Purpose Financial Statement, with respect to the Contract ("Contract") No. 72030618C00014 awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the period of June 11, 2018 through December 12, 2020.

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 requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is 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 Davis' preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Davis' 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 qualified audit opinion.

Basis for Qualified Opinion

We identified \$247,081 in aggregate questioned costs resulting from significant deficiencies in internal controls and non-compliance with the terms and conditions of the Contract. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred and balances for the indicated period of June 11, 2018 through December 12, 2020, in accordance with the terms of the Contract and conformity with the basis of accounting described in Note 3.

Basis of Accounting

We draw attention to Note 1 to the Special Purpose Financial Statement, which describes the basis of presentation and to Note 3, the basis of accounting. As described in Note 1 to the Statement, the Statement is prepared by Davis on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 1, 2022 on our consideration of Davis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract 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 Davis' internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Davis, the United States Agency for International Development/Afghanistan, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by the Special Inspector General for Afghanistan Reconstruction 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 "Conrad LLP". The script is cursive and fluid.

Lake Forest, California
April 1, 2022

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
Contract No.						
72030618C00014	\$6,921,728	\$6,240,939	\$ -	\$ -	\$ -	(4)
Total revenues	<u>\$6,921,728</u>	<u>\$6,240,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Prime Time	1,833,401	1,775,562	965	-	965	(A)
Subcontract Time	570,537	526,322	-	-	-	
Material	4,060,323	3,583,979	61,131	159,168	220,299	(B)
Subcontract Material	149,657	109,181	3,149	490	3,639	(C)
Prime G&A	259,066	206,219	10,583	10,270	20,853	(D)
Subcontract G&A	<u>48,744</u>	<u>39,676</u>	<u>1,147</u>	<u>178</u>	<u>1,325</u>	(E)
Total costs incurred	<u>\$6,921,728</u>	<u>\$6,240,939</u>	<u>\$76,975</u>	<u>\$170,106</u>	<u>\$247,081</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

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

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Notes to the Special Purpose Financial Statement¹

(1) Basis of Presentation

The accompanying Special Purpose Financial Statements ("SPFS") include costs incurred by Davis Management Group Inc ("Davis") under United States Agency for International Development ("USAID") Contract No 72030618C00014 for the Trade Show Support ("TSS") Activity for the period for the period June 11, 2018 through December 12, 2020 with USAID. Because this SPFS presents only a portion of the operations of Davis, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of Davis. The information in the SPFS is presented in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned award. Therefore, some amounts presented in the SPFS may differ from amounts presented in or used in the preparation of basic accounting statements.

(2) Status and Operation

Davis is a single member S-Corp operating in the Commonwealth of Virginia. Davis is fully operational and continues to pursue opportunities that will allow Davis to expand its operational footprint. Davis employs full-time and part-time W-2 employees that are authorized to work within the United States and also relies on 1099 independent consultants to support its operations and direct engagements.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Davis utilizes a full accrual basis for accounting.

b. Foreign Currency conversion method

Foreign currency is converted using the current spot rate supplied by the banking institution utilized.

(4) Revenues

Davis recognizes revenue based on ASC 606 revenue recognition guideline. Revenue for the USAID TSS contract was recognized monthly as services were performed or delivered, and expenses were incurred.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Davis Management Group.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"), in Support of the
Trade Show Support ("TSS") Activity

For the Period of June 7, 2018 through December 6, 2020

Notes to the Special Purpose Financial Statement¹

(5) Cost Categories

In Davis' Chart of Accounts, costs are segregated by direct and indirect costs. The indirect costs are further segregated into homogenous pools; Fringe, Overhead, and General and Administrative expenses.

The budget categories presented, and associated amounts reflect the budget line items presented within the approved contract budget. The total budget for the Program was \$6,921,728 for the performance period of the aforementioned contract.

(6) Reconciliations

The balance sheet accounts are reconciled on a monthly basis and the profit & loss trend is reviewed monthly.

(7) Indirect Costs

For the USAID TSS Contract, Davis implemented a value-added versus a total cost of input cost structure which includes: 1 – Fringe Pool, 1-Overhead Pool, 1-Sub-handling Pool, 1-G&A Pool. Please refer to Davis' Financial Policies and Procedures for definition of cost and indirect cost pools and allocation bases for Fringe, Overhead, and G&A. This narrative is to provide additional information not included within the standard Financial Policies and Procedures related to the sub-handling pool utilized for USAID TSS.

Sub-handling Pool:

Davis implemented value-added versus total cost of input approach to present a general and administrative ("G&A") rate that more accurately allocates the fixed cost related to the overall administration of the company. Davis relies on the Chief Executive Officer ("CEO"), Finance & Administration Director, and outsourced accounting to monitor and manage sub-contractors and 1099s. The CEO's labor is captured in G&A Labor and the Finance & Administration Director's indirect labor prior to FY2021 was captured in G&A consultants. The Finance & Administration Director was not a W-2 employee at Davis prior to FY2021. Due to this method, costs are classified in the Trial Balance utilizing an allocation based on total direct costs to allocate a portion of G&A expenses to the subcontractor handling pool.

Sub-handling Base:

The sub-handling base includes direct expenses related to sub-contractors and 1099s including labor, travel related expenses, and other direct cost.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Davis Management Group.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"), in Support of the
Trade Show Support ("TSS") Activity

For the Period of June 7, 2018 through December 6, 2020

Notes to the Special Purpose Financial Statement¹

Adequate respective rates were applied to the travel line item as per Agreement terms during the period under audit.

(8) Subsequent Events

Davis Management Group has performed an analysis of the activities and transactions subsequent to the June 11, 2018 through December 12, 2020 period covered by the Statement. Management has performed their analysis through April 1, 2022.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Davis Management Group.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Prime Time

Davis reported a total of \$1,755,562 for Prime Labor for the period of June 11, 2018 through December 12, 2020. During our audit of these costs, we found that Davis charged additional hours to the Program than were supported by the timesheet which resulted in total ineligible prime time costs of \$965. (See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report).

(B) Material

Davis reported a total of \$3,583,979 for material costs for the period of June 11, 2018 through December 12, 2020. During our audit of these costs, we found

- (1) Davis charged "no-show costs" related to hotel accommodation to the TSS program, which resulted in ineligible material costs of \$54,472. (See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report).
- (2) Davis charged cost associated with luxury vehicle rentals to the TSS program without prior approval from USAID which resulted in ineligible material costs of \$6,659. (See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report).
- (3) Davis did not have procurement policies or procedures in place prior to January 2019 and as such, was unable to provide source documentation or sufficient support to substantiate how it had procured vendors, which resulted in unsupported material costs from June 2018 to January 2019 of \$113,015. (See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report).
- (4) In January 2019, David put procurement policies and procedures in place, but did not follow these procedures and, as such, was not able to provide source documentation or sufficient support to substantiate the procurement of vendors were conducted in accordance with Davis' policies and procedures created in January 2019 which resulted in unsupported material costs of \$46,153. (See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report).

² These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only, and as such, are not part of the audited Special Purpose Financial Statement.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"), in Support
of the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

As a result of these findings, we have questioned \$61,131 in ineligible costs and \$159,168 in unsupported costs, totaling \$220,299 in questioned costs.

(C) Subcontract Material

Davis reported a total of \$109,181 for subcontractor material costs for the period of June 11, 2018, through December 12, 2020. During our audit of these costs, we found:

- (1) Refunds issued to the subcontractor Dexis for costs incurred on the Program were not appropriately accounted for, which resulted in total ineligible subcontractor material costs of \$3,016. (See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs* section of this report).
- (2) The subcontractor Dexis incorrectly double charged per-diem for travel costs incurred which resulted in ineligible subcontractor material costs of \$133. (See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs* section of this report).
- (3) The subcontractor Dexis was unable to provide the source documentation or sufficient support to substantiate the passport/visa costs incurred which resulted in unsupported subcontractor costs of \$490. (See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs* section of this report).

As a result of these findings, we have questioned \$3,149 in ineligible costs and \$490 in unsupported costs, totaling \$3,639 in questioned costs.

(D) Prime General and Administrative Costs

Davis reported a total of \$206,219 for prime general and administrative costs for the period of June 11, 2018, through December 12, 2020. The prime general and administrative costs associated with questioned costs identified in Notes A and B above resulted in total ineligible general and administrative costs of \$10,583 and total unsupported general and administrative costs of \$10,270. This resulted in total questioned general and administrative costs of \$20,853, see details below:

² These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only, and as such, are not part of the audited Special Purpose Financial Statement.

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"), in Support
of the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

Note	Unsupported Costs	G&A Costs (Associated with Unsupported Costs)	Ineligible Costs	G&A Costs (Associated with Ineligible Costs)	Total G&A Costs
A	n/a	n/a	\$965	n/a*	n/a
B	\$159,168	\$10,270	\$61,131	\$10,583	\$20,853
Totals	\$159,168	\$10,270	\$62,096	\$10,583	\$20,853

*G&A costs were applied only to travel related costs that were budgeted in Material Cost Category per Contract.

(E) Subcontract General and Administrative Costs

Davis reported a total of \$39,676 for subcontractor general and administrative costs for the period of June 11, 2018, through December 12, 2020. The subcontractor general and administrative costs associated with questioned costs identified in Note C above resulted in total ineligible general and administrative costs of \$1,147 and total unsupported general and administrative costs of \$178. This resulted in total questioned general and administrative costs of \$1,325.

Note	Unsupported Costs	Sub G&A Costs (Associated with Unsupported Costs)	Ineligible Costs	Sub G&A Costs (Associated with Ineligible Costs)	Total Sub G&A Costs
C	\$490	\$178	\$3,149	\$1,147	\$1,325

² These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only, and as such, are not part of the audited Special Purpose Financial Statement.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Davis Management Group Inc.
Washington, DC 20018-4311

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Davis Management Group ("Davis") under the Trade Show Support ("TSS") Activity, Contract No. 72030618C00014, for the period of June 11, 2018 through December 12, 2020. We have issued our report thereon dated April 1, 2022 with a modified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered Davis' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Davis' internal control. Accordingly, we do not express an opinion on the effectiveness of Davis' 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 Davis' 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify three deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2022-01, 2022-02, and 2022-03, which are considered significant deficiencies.

Davis' Response to Findings

Davis' response to the findings identified in our audit is included verbatim in Appendix A. Davis' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, and the result of that testing, and not to provide an opinion on the effectiveness of Davis' 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.

Restriction on Use

This report is intended for the information of Davis, the United States Agency for International Development/Afghanistan, and Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by Special Inspector General for Afghanistan Reconstruction 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 "Conrad LLP". The signature is written in a cursive, stylized font.

Lake Forest, California
April 1, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Davis Management Group Inc.
Washington, DC 20018-4311

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Davis Management Group ("Davis") for the Trade Show Support ("TSS") Activity, Contract No. 72030618C00014, for the period of June 11, 2018 through December 12, 2020. We have issued our report thereon dated April 1, 2022 with a modified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Davis' Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2022-01, 2022-02, and 2022-03.

Davis' Response to Findings

Davis' response to the findings identified in our audit is included verbatim in *Appendix A*. Davis' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of 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.

Restriction on Use

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



Lake Forest, California
April 1, 2022

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

Finding 2022-01: Ineligible Costs Charged to the Program

Nature of Finding: Non-compliance; Internal Control – Significant Deficiency

Condition: Conrad pulled a judgmental sample of 11 of 26 employees and consultants in the Program and reviewed 4 of the 27 billing vouchers for each of the selected employees and consultants to assess the accuracy, reasonableness, allocability, and allowability of the charges to USAID. This consists of 66 timesheet entries. The costs associated with this sample of vouchers was \$540,498 out of a total \$1,775,562 in Prime Time costs.

- In 1 out of 66 timesheet entries tested, Davis charged 10 additional hours for one of the consultants than what was supported by the timesheet. This resulted in excess charges to USAID in the amount of \$965.

We also selected and tested 32 samples totaling \$2,040,510 out of a population of 998 transactions totaling \$3,583,979 in Material Costs to determine if the costs incurred under the Program were adequately supported, accurate, properly approved, allowable and in compliance with the applicable regulations and Contract terms and conditions.

- In 10 out of 32 samples tested for material costs, Davis charged "no show charges" for trade show attendee's lodging accommodations to the Program. This resulted in overages to USAID in the amount of \$54,472.
- In 1 out of 32 samples tested for material costs, Davis charged costs associated with luxury vehicle rentals, including 12 BMWs, 8 Mercedes E-Class, 2 Commuters, and 2 Large Coaches for transportation between the airport and hotel, which is approximately 500 meters in distance were not approved by USAID. This resulted in excess charges to USAID in the amount of \$6,659.

Criteria:

Davis Management Group Standard Operating Procedures November 2019, Section 7.0 Accounts Receivable, states, in part:

- a) "Timekeeping and Approval
 - ii. Upon successful completion of the monthly labor, a report by project should be run in order to capture all available labor for each customer...
 - iv. ...All customer required time sheets are received from the appropriate employee or contractor and maintained until the month end when labor is reconciled for invoice submissions...

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

- b) Customer/Project Files
 - ii. ...At the end of the month when labor has been reconciled, the DMG time sheet and if there is a customer approved time sheet should agree to each other exactly. Any discrepancy should be addressed with the employee or contractor immediately.
 - iii. Using the timekeeping database all labor to be invoiced is collected as a report by project for a labor period. These labor hours reconciled to any time sheet required by the customer determines the number of hours to be invoiced at the specified rates for each position..."

Davis Management Group Standard Operating Procedures November 2019, Section 11.0 Unallowable Costs, states, in part:

"Policy for the identification and segregation of unallowable costs in the Company's general ledger accounting system. It is DMG policy to ensure unallowable costs are not included in claimed federal government contract costs or in proposals submitted to the government..."

...Responsibilities:

- a) Entering all expenses into the financial system
- b) Determining if any portion of the cost is unallowable;
- c) Post any unallowable expense to a separate general ledger account indicating an unallowable cost
- d) Remove all unallowable costs from the calculation of indirect rates...

...Procedure:

- a) Accounts are set up in the chart of accounts for anticipated unallowable costs...
- c) ...Expenses are input by the bookkeeper, as invoices are received.
- d) Upon review of an invoice, a determination is made if the cost is allowable or unallowable. Examples of unallowable costs commonly incurred by the company are:
 - i. Interest
 - ii. Penalties
 - iii. Entertainment
 - iv. Charitable contributions
 - v. Reasonableness and allocability are also considered
 - vi. These are not meant to be an all-inclusive list of unallowable costs, only a sample of commonly incurred costs. A full listing of unallowable costs can be found in the FAR.
- e) Unallowable costs which are identified are then posted to general ledger accounts specifically identified as unallowable in the general ledger.
- f) Postings of expenses are reviewed by senior management for potential unallowable costs
- g) A review of the expenses posted to the general ledger is made by senior management each month, looking for any potentially missed unallowable costs.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

- h) If there is any question as to the allowability of a particular cost, the FAR is consulted. At the direction of management, the company is very conservative in its interpretation and application of the FAR requirements for identifying unallowable costs. If a determination cannot be made based on the FAR, the Company's outside accountants are consulted.
- i) The Company is very small; continuing education and awareness training in the areas of timekeeping procedures, etc., can be accomplished on a one-on-one basis throughout the year."

AIDAR 752.7007 Personnel Compensation, states, in part:

"...(a) Direct compensation of the Contractor's personnel will be in accordance with the Contractor's established policies, procedures, and practices, and the cost principles applicable to this contract."

AIDAR 752.7003 Documentation for Payment, states, in part:

"...(a)(2) The fiscal report shall include the following certification signed by an authorized representative of the Contractor:
...The undersigned hereby certifies to the best of my knowledge and belief that the fiscal report and any attachments have been prepared from the books and records of the Contractor in accordance with the terms of this contract and are correct..."

FAR 31.201-21(d), Determining allowability, states, in part:

"...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Davis Management Group - Business Travel Policies & Procedures, Section 3 Scope, states, in part:

"This policy applies to all Davis Management Group, Inc. employees, consultants, and other non-employees who expend resources on behalf of Davis Management Group, Inc. for their services and related expenses."

Davis Management Group - Business Travel Policies & Procedures, Section 2 Policy, states, in part:

"... Excessive costs for circuitous routes, delays, personal travel, or luxury accommodations and services unnecessary or unjustified in the performance of Company business are not reimbursable. Employees/consultants will be responsible for excess costs and any additional expenses incurred for personal preference or convenience."

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
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Schedule of Findings and Questioned Costs

FAR 31,204-43 Trade, Business, Technical and Professional Activity Costs, states, in part:

"...(c) When the principal purpose of a meeting, convention, conference, symposium, or seminar is the dissemination of trade, business, technical or professional information or the stimulation of production or improved productivity-

... (2) Costs of attendance by contractor employees, including travel costs"

AIDAR 752.7002 Travel and Transportation, states, in part:

"...(a) The Contractor will be reimbursed for reasonable, allocable and allowable travel and transportation expenses incurred under and for the performance of this contract. Determination of reasonableness, allocability and allowability will be made by the contracting officer based on the applicable cost principles, the Contractor's established policies and procedures, USAID's established policies and procedures for USAID direct-hire employees, and the particular needs of the project being implemented by this contract."

Davis Management Group - Business Travel Policies & Procedures, Section 5 Procedures, Rental Cars, states, in part:

"Rental Car Upgrades. "The employees/consultant should rent compact cars and must pay for any increased costs related to upgrades that he or she requests because of personal preference or convenience. If a group of travelers share a rental car or the transportation of equipment is involved, a larger rental car may be approved. The traveler's Supervisor must approve the variance prior to travel."

Davis Management Group - Business Travel Policies & Procedures, Section 5 Procedures, states, in part:

"f. Cancellations

When an employee/consultant finds he or she will not be able to use the accommodations, airfare or other travel arrangement, which have been reserved for the travel, it is the employee/consultant's responsibility to cancel the reservation as soon as possible and within the time limits specified by the reservation, so no cancellation fee is incurred. If the cancellation of accommodations, airfare or other travel arrangement is due to circumstances within the employee/consultant's control, the cancellation fees will be considered unallowable and the employee/consultant will be asked to reimburse Davis Management Group, Inc. for the cost."

Cause: Davis management did not adequately review and approve labor or business travel and transportation charges associated with the program to prevent unallowable costs and excess charges to USAID. Davis stated that the incorrect labor hours charged resulted from human error in the reconciliation process. Davis further stated that the no-show charges associated with the trade show were beyond their ability to control; and the luxury transportation was necessary to accommodate the VIPs attending the events, some of whom were highly placed officials.

Effect: The program charged the U.S. government an amount that exceeded the allowable costs for this program.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
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For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

Questioned Costs: We identified \$965 in ineligible Prime Time costs. We also identified \$61,131 in ineligible Material costs with \$10,583 in associated Prime general and administrative costs. These resulted in \$72,679 in total questioned costs.

Recommendation:

- (1) We recommend that Davis return the ineligible costs associated with the additional hours charged to the Program, the no show charges, and luxury vehicle rentals charged to the Program in the amount of \$72,679.
- (2) We recommend that Davis establish specific procedures to for management oversight of labor and travel costs charged to the federal government and to ensure compliance with relevant policies and procedures within the company and with federal regulations regarding such costs.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

Finding 2022-02: Unsupported Costs were Charged to the Program

Nature of Finding: Non-compliance; Internal Control – Significant Deficiency

Condition: To determine if the costs incurred under the Program were adequately supported, accurate, allowable, and properly approved, Conrad tested 32 Material Costs transactions totaling \$2,040,510 out of a population of 998 transactions totaling \$3,583,979.

- For transactions prior to January 2019, Davis did not have procurement policies and procedures in place. In 5 out of the 32 samples tested for material costs, no procurement support was provided to demonstrate the products or services were acquired and procured to ensure best value and quality, full and open competition, fairness, integrity, and transparency, and were in the best interest of U.S Government. This resulted in overcharges to USAID in the amount of \$113,015.
- For transactions after January 2019, Davis did have procurement policies and procedures in place. Nevertheless, in 5 out of the 32 samples tested for material costs, Davis did not follow the procurement policies and procedures and could not demonstrate the products or services were acquired and procured to ensure best value and quality, full and open competition, fairness, integrity, and transparency, and were in the best interest of U.S Government. This resulted in overcharges to USAID in the amount of \$46,153, see detail below:

Sample No.	Missing Document(s)	Amount
MP-14	No procurement documentation provided	\$ 3,347
MP-17	No procurement documentation provided	9,015
MP-27	Procurement Request Form, Sole source justification	12,062
MP-28	Procurement Request Form, Sole source justification, Consultant's CV	9,339
MP-32	Procurement Request Form, Procurement Memo, Proposal from vendor	12,390
	Total	\$ 46,153

Criteria:

Davis Management Group Procurement Policy and Procedures January 2019, states, in part:

Section 9. Procurement Files

"The DMG designated Finance and Administrative team will maintain procurement files for all purchases of above US \$10,000 as well as in cases when the purchase involves long-term contract or purchase order with multiple payments. All original procurement documentation,

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Trade Show Support ("TSS") Activity

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Schedule of Findings and Questioned Costs

regardless of the value of the procurement, is maintained with the finance records of DMG and enclosed to the related payments."

The procurement files will include copies of the procurement requests, RFPs, SoW quotations and proposal received, bid analysis; any procurement decision memos; copies of the purchase orders or contracts; copies of the invoice(s); and, as applicable, certifications/proofs that the vendor/supplier does not appear on the donors' disallowed entities and person's lists or is vetted with documented concurrences and approvals. The documentation must be sufficient to detail the entire procurement history."

FAR 1.102, Statement of guiding principles for the Federal Acquisition System, states, in part:

"(a) The vision for the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public's trust and fulfilling public policy objectives. Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility.

(b) The Federal Acquisition System will-

(1) Satisfy the customer in terms of cost, quality, and timeliness of the delivered product or service by, for example-

(i) Maximizing the use of commercial products and services;

(ii) Using contractors who have a track record of successful past performance or who demonstrate a current superior ability to perform; and

(iii) Promoting competition;

(2) Minimize administrative operating costs;

(3) Conduct business with integrity, fairness, and openness; and

(4) Fulfill public policy objectives.

(c) The Acquisition Team consists of all participants in Government acquisition including not only representatives of the technical, supply, and procurement communities but also the customers they serve, and the contractors who provide the products and services.

(d) The role of each member of the Acquisition Team is to exercise personal initiative and sound business judgment in providing the best value product or service to meet the customer's needs. In exercising initiative, Government members of the Acquisition Team may assume if a specific strategy, practice, policy or procedure is in the best interests of the Government and is not addressed in the FAR, nor prohibited by law (statute or case law), Executive order or other regulation, that the strategy, practice, policy or procedure is a permissible exercise of authority."

FAR 31.201-2 (d), Determining allowability, states, in part:

"...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Cause: Prior to 2019 and receiving the award, Davis management did not have an adequate accounting and purchasing system in place including a formal procurement policies and procedures to ensure that all commodities were properly procured and documented appropriately. In addition, Davis did not have adequate management review controls in place to ensure management adhered to the procurement policies and procedures put in place in January 2019, and that all procurements made under the Program were procured and documented appropriately.

Effect: It is unclear whether costs charged to the US government and paid under the Program were reasonable, and in accordance with federal and USAID regulations regarding materials acquisition.

Questioned Costs: We identified \$159,168 in unsupported costs and \$10,270 in associated Prime general and administrative costs, which resulted in \$169,438 in total questioned costs, see details below:

Questioned Costs	Unsupported Costs	G&A Associated with Unsupported Costs	Ineligible Costs	G&A Associated with Ineligible Costs	Total Questioned Costs
Material Costs (Travel related)	\$78,041	\$10,270	None	None	\$88,311
Material Costs (material purchased) *	\$81,127	None	None	None	81,127
Total	\$159,168	\$10,270	None	None	169,438

*G&A costs were only applied to travel related costs that was incurred under the Material Cost Category per Contract

Recommendation:

- (1) We recommend that Davis provide support documentation for the procurement of the material costs charged to the Program or return \$169,438 of unsupported costs.
- (2) We recommend that Davis establish specific procedures to guide management oversight of documentation practices compliant with federal and USAID regulations, and internal Davis guidance on materials and services procurements.

(Continued)

Davis Management Group Inc.

Financial Audit of Costs Incurred Under
Time and Materials Contract No. 72030618C00014 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Schedule of Findings and Questioned Costs

Finding 2022-03: Inadequate Monitoring Over Costs Incurred by the Subcontractor

Nature of Finding: Non-compliance; Internal Control – Significant Deficiency

Condition: To determine if the costs incurred under the program were adequately supported, accurate, allowable, and properly approved, Conrad tested 5 samples totaling \$61,794 out of a population of 24 transactions totaling \$109,181 for subcontractor material costs.

- Subcontractor charged ineligible costs to the Program.
 - o In 2 out of the 5 samples tested for subcontractor material costs, the subcontractor received refunds on canceled airfare costs incurred under the Program, but these refunds were not credited back to Davis in the subcontractors billing or refunded back to USAID. This resulted in overcharges to USAID in the amount of \$3,016.
 - o In 1 out of the 5 samples tested for subcontractor material costs, the subcontractor incorrectly double charged per-diem for employee travel charged to the Program. This resulted in overcharges to USAID in the amount of \$133.
- Subcontractor charged unsupported cost to the Program.
 - o In 2 out of the 5 samples tested for subcontractor material costs, the subcontractor did not provide a copy of the passport/Visa invoice or Visa fee schedule or rate chart for four contractors to support the costs charged to the Program. This resulted in unsupported costs charged to USAID in the amount of \$490.

Criteria:

Davis Management Group Standard Operating Procedures November 2019, Section 8.0, Accounts Payable, states, in part:

"...d) All payments to vendors follow the subcontract requirements and any requirements flowed down through the prime contracts. Subcontractors are generally paid on a NET 10 days from the submission of their invoice to Accounts Payables unless otherwise noted within their subcontract. It is the policy of DMG to request the reimbursement of subcontractor costs only to the extent those costs have been paid or will be paid in accordance with the payment terms of the subcontract and ordinarily with thirty (30) days of the date the prime contract invoice was submitted to the Government. The Policy accomplishes this purpose by establishing a structured approach to the preparation and submission of invoices that seek the reimbursement of subcontractor costs."

Subcontract Agreement No. DMG_Dexis Consulting Group 001, Attachment B, Section 1. Modified FAR Commercial Items Provisions, states, in part:

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“FAR 52.212-4 Contract Terms and Conditions – Commercial Items (JAN 2017)

...(i) Payment

... (5) Overpayments: If the Contractor becomes aware of a duplicate contract financing or invoice payment or that the ordering activity has otherwise overpaid on a contract financing or invoice payment, the Contractor shall immediately notify the Contracting Officer and request instructions for disposition of overpayment.”

FAR 31.201-12(d), Determining allowability, states, in part:

“(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

Cause: Davis did not have policies and procedures in place to monitor the invoices submitted by the subcontractor to ensure that all costs billed by the subcontractor were reviewed and that costs were properly supported by detailed invoices and other adequate supporting documents, and any unallowable costs, such as refunds issued to the subcontractor for previously billed costs, were credited back to Davis appropriately.

Effect: The US government may have been charged and paid for materials costs that should not have been funded.

Questioned Costs: We identified a total of \$4,296 of ineligible costs, composed of \$3,149 in ineligible costs, and \$1,147 in associated Subcontractor general and administrative costs. We also identified a total of \$668 in unsupported costs, composed of \$490 in unsupported costs, and \$178 in associated Subcontractor general and administrative costs. These resulted in \$4,964 of combined total questioned costs, see detail below:

Questioned Costs	Unsupported Costs	G&A Associated with Unsupported Costs	Ineligible Costs	G&A Associated with Ineligible Costs	Total Questioned Costs
Subcontractor Material Costs (Travel related)	\$490	\$178	\$3,149	\$1,147	\$4,964

Recommendation:

- (1) We recommend that Davis return the ineligible costs associated with the refunds and double charge of per diem back to the Program in the amount of \$4,296.
- (2) We recommend that Davis provide support documentation for the passport/visa invoice charged to the Program or return \$668 of unsupported costs.
- (3) We recommend that Davis develop and implement policies and procedures to ensure that a supervisory review and reconciliation of costs is performed on invoices submitted by the subcontractor prior to the submission of invoices for reimbursement to USAID.

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Davis Management Group Inc.

Financial Audit of Costs Incurred Under Time and Materials Contract No. 72030618C00014 Awarded by the United States Agency for International Development/Afghanistan ("USAID"), in Support of the Trade Show Support ("TSS") Activity

For the Period of June 11, 2018 through December 12, 2020

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from Davis, SIGAR and USAID pertaining to Davis and activities under this Contract and other Government funded awards. We identified one pre-award accounting system survey performed by USAID which contained 6 findings that could have a material effect on the SPFS and other financial data significant to the audit objectives. Our review procedures included a follow up discussion with Davis' management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

- (1) USAID Pre-Award Accounting System Survey of Davis Management Group, Inc. dated March 15, 2019.

Finding 1 – Board of Directors:

Issue: The USAID review found that Davis currently has a Board of Directors consisting of one member the Owner and CEO. This is not in compliance with the Code of Virginia; § 13.1-673, Requirement for Duties of Board of Directors and the organization's bylaws.

Status: For the current audit, we conducted a meeting with Davis on September 20, 2021, to discuss the status of this issue. Davis stated that this is an ongoing process as it is being discussed with Davis' attorneys. Therefore, we concluded that Davis has not taken adequate corrective action to remediate this issue.

Finding 2 – Davis does not maintain proper documentation:

Issue: The USAID review found that Davis currently uses QuickBooks to manage all of their accounts. On a monthly basis, the Accountant records all expenses using credit card statements and a worksheet with account classifications, provided by the CEO. The review found that DMG did not properly document all purchasing activities and the transaction testing found:

- a. three labor transactions were not supported by timesheets for the selected period.
- b. five transactions consisted of costs that would be unallowable if charged to a USAID award.
- c. two transactions were missing invoices. Davis' Accountant explained that these transactions were entered into the accounting system by a previous Accountant and the original documentation was unavailable.

Status: For the current audit, we reviewed Davis' policies and procedures, and supporting documentation including invoices, payment vouchers and procurement. We found that in seven instances procurement and material costs were not adequately documented by either Davis or the subcontractor. See finding 2022-02 and finding 2022-03. Therefore, we concluded that Davis did not take adequate corrective action to remediate this issue.

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Finding 3 – Lack of segregation of duties in the purchasing process:

Issue: During the USAID review of 15 judgmentally selected transactions from Davis' general ledger, it was noted that there were no purchase orders, vouchers, or approvals provided for any of the selected transactions. Although Davis stated their cost transactions are reviewed by a second individual, there was no evidence indicating that these duties (i.e., review and approvals) are segregated.

Status: For the current audit, we reviewed Davis' policies and procedures and supporting documentation including invoices, payment vouchers, approvals, and procurement. We found adequate segregation of duties for approval of costs incurred under the Program. Therefore, we concluded that Davis has taken adequate corrective action on this issue.

Finding 4 – Unallowable cost policies, procedures and practices

Issue: The USAID review found that Davis does not currently identify and segregate unallowable costs in its accounting system to exclude them from Federal Awards. The review found that:

- a. In Davis' available policies, it specifically references evaluating costs as partially allowable, reasonable, allocable, in compliance with Generally Accepted Accounting Principles (GAAP), Cost Accounting Standards (CAS), in accordance with contract terms, and compliance with FAR 31.205, Selected Costs.
- b. Five transactions consisted of costs that would be unallowable if charged to a USAID award.
- c. Unallowable costs are not identified or segregated in the Chart of Accounts or General Ledger.

Status: For the current audit, we reviewed Davis' policies and procedures and supporting documentation including reviewing unallowable costs, invoices, payment vouchers, approvals, and procurement. We found that Davis had adequate policies, procedures, and practices to identify unallowable costs. However, we found that unallowable costs were charged to the Program, as described in Finding 2022-01. Therefore, we concluded that Davis has not taken adequate corrective action on this issue.

Finding 5 – Insufficient written policies and procedures for USAID sub-award:

Issue: The USAID review found that Davis' existing policies and procedures are inadequate in accordance with FAR 42.202, Assignment of Contract Administration and FAR 31.205-33, Professional and consultant service costs.

Status: For the current audit, we reviewed Davis' policies and procedures and supporting documentation including invoices, payment vouchers, approvals, and procurement. We found that Davis did not have adequate policies and procedures and internal control over the costs incurred by the subcontractor, as described in Finding 2022-03. Therefore, we concluded that Davis has not taken adequate corrective action to remediate this issue.

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Finding 6 – Inadequate accounting policies and procedures:

Issue: The USAID review found that Davis' current written Accounting Policies and Procedures for the proper accounting of costs on U.S. Government Awards are inadequate in that they define federal regulations but not the business practices. The written policies and procedures on Unallowable Costs, Allocation of Indirect Expenses, and Direct vs. Indirect costs do not document the following DMG's current business practices:

- Purchasing process;
- Accounting process;
- Sub-recipient and consultant management; and
- How management applies the regulations to their business practices.

Status: For the current audit, we reviewed Davis' policies and procedures and supporting documentation, including invoices, payment vouchers, approvals, and procurement. We found that Davis created a Procurement Policy and Procedure in January 2019 and updated its Standard Operating Procedures in November 2019, after the issue was identified. Davis' Standard Operating Procedures included additional guidance on identifying unallowable costs and allocation of direct and indirect costs to projects based on FAR 31 guidelines. In addition, the Procurement Policies and Procedures outlined procurement responsibilities within the organization, documentation requirements based on purchase thresholds, competitive bidding process, screening for disallowed vendors, and vendor performance monitoring, which aligned with FAR/AIDAR requirements. Therefore, we concluded that Davis had taken adequate corrective action to remediate this issue.

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Davis Management Group's Responses to Audit Findings

Included on the following page is Davis' responses received to the findings identified in this report.



Dear Conrad LLP Audit Team,

Thank you for allowing us to provide a formal response to the Special Inspector General of Afghanistan Reconstruction (SIGAR) audit findings for the USAID Tradeshow Support Activity contract #72030618C00014. In the report, three (3) material findings were noted:

- No-show charges
- Additional hours charged to the project
- Inadequate Monitoring over incurred by the subcontractor
- Procurement of luxury vehicles
- Insufficient policy and procedures

As a small woman-owned business and our first contract with USAID, we were honored to be selected and to be able to support the important work that USAID does and continues to do. The TSS contract had a tremendous impact on the participating businesses in numbers of deals discussed and signed, and in the re-casting of Afghanistan as a good place to do business and invest funding.

Below please find our response to the audit findings:

1.) No show charges. Standard hotels charge a no-show charge, especially for large events like a TSS tradeshow, for not showing up or cancellation 24 hours before arrival. We incurred no-show chargers because the sponsored attendees (Afghan businesses) that did not show up at the originally planned date and did not inform us of their change in travel dates.

2.) Additional hours charged to the project. We acknowledge that this was a technical mistake.

3.) Inadequate Monitoring over incurred by the subcontractor. We acknowledge that this was an oversight. The overages have been refunded back to us. Once instructions are received, we will refund the government.

2.) Luxury vehicles. As a standard practice, we procure higher-end vehicles high-level diplomats and government officials of other countries, for instance, the former President of Afghanistan, Dr. Abdullah Abdullah.

3.) Insufficient policies and procedures. November 2018, USAID conducted a pre-audit survey that identified a lack in policies and procedures. December 2018, this was addressed when we hired a Director of Finance and Administration. January 2019, we established business policies and procedures. We continually evaluate these policies and procedures for improvement, practicality, and compliance.

Again, thank you for the opportunity to provide our response.

Sincerely,

Erika Davis, CEO

Davis Management Group Inc.

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Auditor's Rebuttal to Davis Management Group's Responses to Audit Findings

Davis did not agree or disagree with any of the findings identified but provided some responses on each of the findings. We have reviewed Davis' responses and provided the following rebuttals:

(1) **Finding 2022-01** – Davis did not agree or disagree with the finding but provided the following responses:

- Davis stated that standard hotels charge a no-show charge, especially for large events like the TSS tradeshow, for not showing up or a cancellation 24 hours before arrival. Davis also stated the no show charges were incurred because the sponsored attendees did not show up at the originally planned date and did not inform Davis of their change in travel dates.
- Davis stated the 10 additional hours charged to the Program was due to a technical mistake.
- Davis stated that luxury vehicles are a standard practice, the organization would procure higher-end vehicles for high-level diplomats and government officials of other countries, for instance, the former President of Afghanistan.

Auditor Rebuttal:

- For the ineligible costs related to "No-Show Charges", as stated in the criteria of the finding, it is the attendees/employees responsibility to cancel the reservation if they cannot make the trip. Davis did not properly enforce the requirements of its policy. In addition, Davis should have obtained an approval from USAID prior to incurring the costs if the costs are unavoidable. As such, our finding and recommendation remains unchanged.
- For the ineligible costs for the additional 10 hours charged to the Program, no rebuttal is deemed necessary as Davis concurred it was due to a technical error.
- For the ineligible costs related to luxury vehicle rentals, a standard industry practice does not alleviate Davis from obtaining an approval from USAID prior to incurring the costs. As such, our finding and recommendation remains unchanged.

(2) **Finding 2022-02** – Davis did not agree or disagree with the unsupported cost finding of \$169,438 and associated general and administrative costs. Davis stated that in November 2018, USAID conducted a pre-audit accounting system survey and identified a lack in policies and procedures. In response to the results of this survey, in December 2018, Davis hired a Director of Finance and Administration to address the issues. In addition, in January 2019, Davis established business policies and procedures to ensure compliance with their government clients. Davis also stated the organization continually evaluates these policies and procedures for improvement, practicality, and compliance.

Auditor Rebuttal:

- Davis did not have procurement policies and procedures in place prior to January 2019 as stated in its response and the procurement policies and procedures created in January 2019

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Auditor's Rebuttal to Davis Management Group's Responses to Audit Findings

were not followed by Davis' staff. As such, our finding and recommendation remains unchanged.

- (3) **Finding 2022-03:** Davis did not agree or disagree with the finding. Davis acknowledged there was an oversight and the refund and overcharged per diem has been refunded to Davis from the subcontractor. Davis stated that once they receive instructions, these costs will be refunded to the U.S. Government. Davis did not provide a response for the unsupported cost finding of \$668 and associated general and administrative costs.

Auditor Rebuttal:

- For the ineligible costs, no rebuttal is deemed necessary as Davis concurred it was an oversight, and they will refund the U.S. Government pending instructions.
- For the unsupported costs, Davis did not provide a response and as such no rebuttal is necessary.

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- 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;
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- advance U.S. interests in reconstructing Afghanistan.

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SIGAR's Mission

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