

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 23-29 Financial Audit**

## USAID's Exports, Jobs, and Market Linkages in Carpet and Jewelry Value Chains Program in Afghanistan: Audit of Costs Incurred by Turquoise Mountain Trust



JULY  
2023

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On January 31, 2019, the U.S. Agency for International Development (USAID) Mission to Afghanistan awarded a \$9,941,606 cooperative agreement to Turquoise Mountain Trust (TMT) to support the Exports, Jobs, and Market Linkages in Carpet and Jewelry Value Chains Program in Afghanistan. The program's objectives were to, among other things, create jobs and exports within the carpet and jewelry sectors and support new jobs through the integration of carpet producers, jewelers, and weavers into international value chains. USAID modified the agreement five times; the modifications did not change the total award amount or the period of performance, ending April 30, 2023.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr) reviewed \$2,341,038 in costs charged to the agreement from January 1, 2021, through December 31, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in TMT's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether TMT has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of TMT's Special Purpose Financial Statement (SPFS). See Davis Farr's report for the precise audit objectives.

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

July 2023

## USAID's Exports, Jobs, and Market Linkages in Carpet and Jewelry Value Chains in Afghanistan: Audit of Costs Incurred by Turquoise Mountain Trust

SIGAR 23-29-FA

### WHAT SIGAR FOUND

Davis Farr identified two material weaknesses and four significant deficiencies in TMT's internal controls. The auditors also identified six instances of noncompliance with the terms of the agreement. For example, Davis Farr found that TMT charged USAID for personal travel expenses, including for airfare, lodging, and car rentals. In another example, the auditors found that TMT overcharged USAID for various indirect costs, including for fringe benefits and supplies. SIGAR notified TMT of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Davis Farr identified \$76,225 in total questioned costs, consisting of \$76,006 in ineligible costs—costs prohibited by the agreement and applicable laws and regulations, and \$219 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$42,905	\$199	\$43,104
Indirect Costs	\$33,101	\$20	\$33,121
<b>Total Costs</b>	<b>\$76,006</b>	<b>\$219</b>	<b>\$76,225</b>

Davis Farr identified one prior audit report that was relevant to TMT's agreement. The report had one finding that could have a material effect on the SPFS. Davis Farr conducted follow-up procedures and concluded that TMT took adequate corrective action on the finding.

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

### WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$76,225 in questioned costs identified in the report.
2. Advise TMT to address the report's six internal control findings.
3. Advise TMT to address the report's six noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 14, 2023

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

Mr. Sean Callahan  
Mission Director, U.S. Agency for International Development

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by Turquoise Mountain Trust (TMT) under a cooperative agreement from the U.S. Agency for International Development (USAID) Mission to Afghanistan to support the Exports, Jobs, and Market Linkages in Carpet and Jewelry Value Chains Program in Afghanistan.<sup>1</sup> The program's objectives were to, among other things, create jobs and exports within the carpet and jewelry sectors and support new jobs through the integration of carpet producers, jewelers, and weavers into international value chains. Davis Farr reviewed \$2,341,038 in costs charged to the agreement from January 1, 2021, through December 31, 2021. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. Determine the allowability of and recover, as appropriate, \$76,225 in questioned costs identified in the report.
2. Advise TMT to address the report's six internal control findings.
3. Advise TMT to address the report's six noncompliance findings.

Davis Farr discusses the results of the audit in detail in the attached report. We reviewed Davis Farr's report and related documentation. We also inquired about Davis Farr's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 TMT's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Davis Farr is responsible for the attached auditor's report, dated May 24, 2023, and the conclusions expressed therein. However, our review disclosed no instances in which Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-249)

<sup>1</sup> The cooperative agreement number is 72030619CA00001.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

## Table of Contents

	<u>Page</u>
Transmittal Letter	i
Background	1
Work Performed	1
Objectives, Scope, and Methodology	1
Summary of Results	4
Review of Prior Findings and Recommendations	6
Summary of TMT's Responses	6
References to Appendices	6
Independent Auditor's Report on Special Purpose Financial Statement	7
Special Purpose Financial Statement	10
Notes to Special Purpose Financial Statement	11
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	14
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	16
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	18
Detailed Audit Findings	20
Status of Prior Findings	32
Appendices:	
Appendix A: Views of Responsible Officials	33
<b>Appendix B: Auditor's Rebuttal to TMT's Response to Findings</b>	<b>35</b>

June 8, 2023

Enclosed is the final report on the audit of the Special Purpose Financial Statement of Turquoise Mountain Trust (TMT) under United States Agency for International Development (USAID) Cooperative Agreement No. 72030619CA00001 for the Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program. The audit covers the period January 1, 2021 through December 31, 2021.

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

When preparing our report, we considered comments, feedback and interpretations from TMT, the Special Inspector General for Afghanistan Reconstruction (SIGAR) and USAID. Management of TMT has prepared a response to the findings identified during our audit and that response is included as part of this report. The response has not been audited and we express no opinion on it.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA  
Partner

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

## Background

On January 31, 2019, the United States Agency for International **Development's (USAID's) Mission** in Afghanistan awarded Cooperative Agreement No. 72030619CA00001 (Agreement) to Turquoise Mountain Trust (TMT) to provide support for the implementation of the Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program (Program). The purpose of the Program is to **support Afghanistan's carpet and jewelry sectors**. Its goal is to create jobs and exports within the carpet and jewelry sectors and support new jobs through the integration of carpet producers, jewelers, and weavers into international value-chains. Additionally, the Program aims to increase social and environmental responsibility, raise awareness, and change perceptions of the Afghan carpet and jewelry sectors in the global market.

The Agreement was awarded in the original amount of \$9,941,606 plus \$100,332 in cost share for the period of performance from January 31, 2019 through April 30, 2023. After 5 modifications to the Agreement for items such as increasing the obligated amount for the award and reassigning the Agreement Officer and Agreement Officer Representative, the total funding, cost-share, and period of performance were unchanged.

TMT is an international non-profit, non-governmental organization specializing in urban regeneration, business development, and education in traditional arts and architecture. TMT was established in 2006 at the behest of His Majesty King Charles III and performs work in Afghanistan, Myanmar, and the Middle East.

## Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of TMT's Special Purpose Financial Statement (SPFS) under the Agreement for the period January 1, 2021, through December 31, 2021. Total costs reported by TMT were \$2,341,038, consisting entirely of costs incurred with no cost share reported during the period under audit.

## Objectives, Scope, and Methodology

### Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether TMT's **SPFS** for the Agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the Agreement and generally accepted accounting principles or other comprehensive basis of accounting.

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

- *Internal Controls* – Evaluate and obtain a sufficient understanding of TMT’s **internal control** related to the Agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether TMT complied, in all material respects, with the Agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether TMT 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 the audit included the total costs incurred of \$2,341,038 for the period January 1, 2021 through December 31, 2021. There was no cost share incurred during the period. The period of performance of the Agreement is not yet complete. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the 10% de minimis rate approved by USAID in the Agreement.

## Methodology

To accomplish the objectives of this audit, we designed our audit procedures to include the following:

### Entrance Conference

An entrance conference was held via Zoom on September 1, 2022 with representatives of Davis Farr, TMT, SIGAR and USAID in attendance.

### Planning

During our planning phase, we performed the following:

- Obtained an understanding of TMT;
- Reviewed the Agreement and all modifications to date;
- Reviewed sections of the Code of Federal Regulations (CFR) as applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and



## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

transactions that were considered to be high, moderate, or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:

- o For accounts that appear to contain unallowable and restricted items according to the terms of the Agreement, 2 CFR Parts 200 and 700, and any other applicable regulations, we sampled 100% of the transactions.
- o For high risk cost categories, we sampled transactions greater than \$11,700, and additional transactions below \$11,700 to ensure that at least 50% of the total amount expended for each cost category was sampled.
- o For moderate risk categories, we sampled transactions that are greater than \$23,400, and additional transactions below \$23,400 to ensure at least 20% of the total amount expended for each cost category was sampled.
- o For low risk categories, we sampled transactions to ensure at least 10% of the costs for each low risk cost category was sampled. No sample was selected for indirect costs as we tested the proper application of indirect cost rates. This included reviewing **TMT's indirect costs** to ensure that the de minimis rate of 10% as specified in the Agreement was not exceeded.

### Internal Control Related to the SPFS

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

### Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Agreement and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance with the Agreement requirements and laws and regulations.

### Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, TMT and USAID and requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

## Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement, modifications and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

## Exit Conference

An exit conference was held on March 23, 2023 via Zoom. Participants included representatives from Davis Farr, TMT, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

## Summary of Results

Our audit of the costs incurred by TMT under the Agreement with USAID identified the following results.

### **Auditor's Opinion on SPFS**

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$76,225 of questioned costs, which consists of \$76,006 of ineligible costs and \$219 of unsupported costs. A summary of findings and questioned costs is described in the next section.

### **Summary of Findings and Questioned Costs**

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Costs
2021-01	Internal control – material weakness Noncompliance	Personal travel expenses	\$44,066	\$44,066

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
 Cooperative Agreement No. 72030619CA00001  
 Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Costs
2021-02	Internal control – material weakness Noncompliance	Excess indirect costs charged to the Agreement	\$28,810	\$72,876
2021-03	Internal control – significant deficiency Noncompliance	Costs incurred outside of SPFS period	\$3,130	\$76,006
2021-04	Internal control – significant deficiency Noncompliance	Insufficiently supported costs	\$219	\$76,225
2021-05	Internal control – significant deficiency Noncompliance	Lack of evidence for exclusion and/or anti-terrorist check	\$0	\$76,225
2021-06	Internal control – significant deficiency Noncompliance	Misclassification of expenses on the SPFS	\$0	\$76,225

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered TMT’s **internal control** over financial reporting and performed tests of those controls. The results of our tests disclosed six internal control weaknesses required to be reported under *Government Auditing Standards*. Two weaknesses are considered to be material weaknesses, and four weaknesses are considered to be significant deficiencies. See Independent **Auditor’s Report on Internal Control** on page 16.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed six instances of noncompliance related **to this audit**. See **Independent Auditor’s Report on Compliance** on page 18.

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

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains

For the period January 1, 2021 through December 31, 2021

## Review of Prior Findings and Recommendations

We requested from TMT, SIGAR and USAID copies of any prior engagements including audits, **reviews, attestation engagements and other studies that relate to TMT's activities under the Agreement.** We identified one prior audit report that included a management letter that contained one finding that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We performed follow-up procedures, tested transactions, and reviewed documentation to determine if the issue occurred under our audit. Accordingly, we have concluded that TMT has taken adequate corrective actions on the prior finding. See the Status of Prior Findings on page 32 for a detailed description of the prior findings and recommendations.

## Summary of TMT's Responses

The following represents a summary of the responses provided by TMT to the findings identified in this report. The complete response received can be found in Appendix A to this report.

- Finding 2021-01 – TMT disagreed with this finding indicating that the personal travel expenses represent fringe benefits and thus are allowable.
- Finding 2021-02 – TMT disagreed with this finding indicating that it charged indirect costs on an equal monthly basis and will true-up the indirect costs at the end of the period of performance, thus TMT believes the indirect costs as charged are allowable.
- Finding 2021-03 – TMT partially agreed with this finding indicating that the invoice was received late and not properly accrued, but disagrees with any questioned costs because the amount was neither previously reported, nor charged to the agreement.
- Finding 2021-04 – TMT agreed with this finding on insufficiently supported costs.
- Finding 2021-05 – TMT agreed with this finding on the lack of evidence for exclusion and/or anti-terrorist checks.
- Finding 2021-06 – TMT agreed with this finding on the misclassification of expenses on the SPFS.

## References to Appendices

The auditor's reports are supplemented by two appendices, Appendix A, which contains management's responses to the audit findings and Appendix B, which contains the auditor's rebuttal to management's comments.

INDEPENDENT AUDITOR'S REPORT  
ON SPECIAL PURPOSE FINANCIAL STATEMENT

Turquoise Mountain Trust  
1 Earl Grey St, Edinburgh  
EH3 9EE, United Kingdom

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

Report on the Audit of the Special Purpose Financial Statement

*Opinion*

We have audited the Special Purpose Financial Statement of Turquoise Mountain Trust (TMT) under Cooperative Agreement No. 72030619CA00001 (Agreement) with the United States Agency for International Development (USAID) to support the Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program (the Program) for the period January 1, 2021 through December 31, 2021, and the related notes to the Special Purpose Financial Statement.

In our opinion, the accompanying Special Purpose Financial Statement presents fairly, in all material respects, the respective revenue received and costs incurred by TMT under the Agreement for the period January 1, 2021 through December 31, 2021 in accordance with the basis of accounting described in Note 2.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further **described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement** section of our report. We are required to be independent of TMT and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Basis of Accounting*

We draw attention to Note 2 of the Special Purpose Financial Statement, which describes the basis of accounting. As described in Note 2, the Special Purpose Financial Statement is prepared by TMT 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.

Turquoise Mountain Trust  
1 Earl Grey St, Edinburgh  
EH3 9EE, United Kingdom

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

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### *Responsibilities of Management for the Special Purpose Financial Statement*

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2, and for the design, implementation, and maintenance of internal control 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.

In preparing the Special Purpose Financial Statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about TMT's ability to continue as a going concern for the later of twelve months beyond the Special Purpose Financial Statement date or the end of the period of performance of the Agreement.

### **Auditor's Responsibilities** for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or **error, and to issue an auditor's report that includes our opinion.** Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Special Purpose Financial Statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Special Purpose Financial Statement.
- obtain an understanding of internal control relevant to the audit 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 TMT's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Special Purpose Financial Statement.

Turquoise Mountain Trust  
1 Earl Grey St, Edinburgh  
EH3 9EE, United Kingdom

Office of the Special Inspector General for Afghanistan Reconstruction  
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- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **TMT's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### *Restriction on Use*

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

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 24, 2023 on our consideration of TMT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TMT's internal control over financial reporting and compliance.

*Dawn Farr LLP*

Irvine, California  
May 24, 2023

TURQUOISE MOUNTAIN TRUST

Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001

For the Period January 1, 2021 through December 31, 2021

	<u>Budget</u>	<u>Expenditures</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Revenues:						
Award No. 72030619CA00001	<u>\$ 9,941,606</u>	<u>\$ 2,341,038</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(3)
Total revenues	<u>9,941,606</u>	<u>2,341,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	4,943,260	1,336,022	-	15	15	(4),(A)
Fringe benefits	786,950	207,506	39,497	-	39,497	(4),(B)
Travel	380,700	38,565	-	-	-	(4)
Program equipment	31,560	36,218	-	-	-	(4)
Supplies	645,771	151,004	563	170	733	(4),(C)
Sub-grant/contracts	1,241,306	180,633	2,845	14	2,859	(4),(D)
Security	389,278	90,452	-	-	-	(4)
Other direct costs	731,826	85,865	-	-	-	(4)
Indirect costs	<u>790,955</u>	<u>214,773</u>	<u>33,101</u>	<u>20</u>	<u>33,121</u>	(4),(5),(E)
Total costs incurred	<u>9,941,606</u>	<u>2,341,038</u>	<u>76,006</u>	<u>219</u>	<u>76,225</u>	(4)
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (76,006)</u>	<u>\$ (219)</u>	<u>\$ (76,225)</u>	(6),(F)
Cost share	<u>\$ 100,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(7),(G)

See Notes to Special Purpose Financial Statement



# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Notes to Special Purpose Financial Statement<sup>1</sup>

For the Period January 1, 2021 through December 31, 2021

## (1) **Background**

On January 31, 2019, the United States Agency for International Development's (USAID's) Mission in Afghanistan awarded Cooperative Agreement No. 72030619CA00001 (Agreement) to Turquoise Mountain Trust (TMT) to provide support for the implementation of the Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program (Program). The purpose of the Program is to support Afghanistan's carpet and jewelry sectors. Its goal is to create jobs and exports within the carpet and jewelry sectors and support new jobs through the integration of carpet producers, jewelers, and weavers into international value-chains. Additionally, the Program aims to increase social and environmental responsibility, raise awareness, and change perceptions of the Afghan carpet and jewelry sectors in the global market.

The Agreement was awarded in the original amount of \$9,941,606 plus \$100,332 in cost share for the period of performance from January 31, 2019 through April 30, 2023. After 5 modifications to the Agreement, the total funding, cost-share and period of performance were unchanged.

TMT is an international non-profit, non-governmental organization specializing in urban regeneration, business development, and education in traditional arts and architecture. TMT was established in 2006 at the behest of His Majesty King Charles III and performs work in Afghanistan, Myanmar, and the Middle East.

## (2) **Summary of Significant Accounting Policies**

### Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes revenue received and costs incurred under the Agreement for the period January 1, 2021 through December 31, 2021. Because the SPFS presents only a selected portion of the operations of TMT, it is not intended to and does not present the financial position, changes in financial position, or cash flows of TMT. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned Agreement.

### Basis of Accounting

Revenues and expenses on the SPFS are reported on the accrual basis of accounting. Revenues are recognized when earned. Expenses are recognized when incurred and follow the cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenses are not allowable or are limited as to reimbursement.

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<sup>1</sup>. The Notes to the Special Purpose Financial Statement with a numeric identifier are the responsibility of TMT.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Currency

All amounts presented on the SPFS are in U.S. dollars. TMT converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by using the average rate over the financial period. Exchange gains and losses are taken to income and expense accounts.

(3) Revenue

TMT reported \$2,341,038 in revenue for the period January 1, 2021 through December 31, 2021.

(4) Budget

The budget included in the Agreement is as follows:

Total direct costs	\$ 9,110,651
Construction	40,000
Indirect costs	<u>790,955</u>
Total Federal costs	9,941,606
Cost share	<u>100,332</u>
Total budget	<u>\$10,041,938</u>

The budget is further defined by activity in the Agreement as follows.

Carpet program	\$ 8,338,966
Jewelry program	1,602,641
Cost share	<u>100,332</u>
Total budget	<u>\$10,041,939</u>

TMT has internally divided the budget into individual line items. The cost categories on the SPFS represent the internal cost categories of TMT.

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

## Notes to Special Purpose Financial Statement

(Continued)

(5) Indirect Costs

In accordance with the Agreement, TMT's **indirect costs** are calculated using a de minimis rate of 10% of modified total direct costs (MTDC). MTDC are defined as all salaries and wages, applicable fringe benefits, materials and supplies, services, travel and up to the first \$25,000 of each sub-award. MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant costs and the portion of each sub-award in excess of \$25,000.

(6) Outstanding Fund Balance

As of December 31, 2021, there was no outstanding fund balance under the Agreement.

(7) Cost Share

TMT is required to provide a non-Federal cost share equal to 1% of all Federal funds expended, or approximately \$100,332. TMT did not incur any cost share during the period January 1, 2021 through December 31, 2021. The cost share is to be incurred by the end of the period of performance of the Agreement.

(8) Subsequent Events

TMT has evaluated subsequent events through May 24, 2023, which is the date the SPFS was available to be issued. There were no events subsequent to this date that would impact the SPFS.

## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period January 1, 2021 through December 31, 2021

There were two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable, prohibited by the agreement, prohibited by applicable laws and regulations, or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

**(A) Personnel**

TMT reported personnel costs of \$1,336,022 for the period January 1, 2021 through December 31, 2021. During our audit of these costs, we identified \$15 in questioned costs (unsupported) consisting of insufficiently supported transactions. See Finding 2021-04.

**(B) Fringe Benefits**

TMT reported fringe benefits costs of \$207,506 for the period January 1, 2021 through December 31, 2021. During our audit of these costs, we identified \$39,497 in questioned costs (ineligible) consisting of personal travel expenses. See Finding 2021-01.

**(C) Supplies**

TMT reported supplies costs of \$151,004 for the period January 1, 2021 through December 31, 2021. During our audit of these costs, we identified \$563 in questioned costs (ineligible) consisting of personal travel expenses, and \$170 in questioned costs (unsupported) consisting of insufficiently supported transactions. See Findings 2021-01 and 2021-04.

**(D) Sub-Grant/Contracts**

TMT reported sub-grant/contracts costs of \$180,633 for the period January 1, 2021 through December 31, 2021. During our audit of these costs, we identified \$2,845 in questioned costs (ineligible) consisting of personal travel expenses, and \$14 in questioned costs (unsupported) consisting of insufficiently supported transactions. See Findings 2021-03 and 2021-04.

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<sup>2</sup> The Notes to Questioned Costs Presented on the Special Purpose Financial Statement with an alphabetical identifier were prepared by Davis Farr LLP for information purposes only and as such are not a part of the audited Special Purpose Financial Statement.

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

(Continued)

(E) Indirect Costs

TMT reported indirect costs of \$214,773 for the period January 1, 2021 through December 31, 2021. During our audit of these costs, we identified \$28,810 in questioned costs (ineligible) consisting of indirect costs charged in excess of the allowable indirect cost rate. Additionally, the indirect cost rate described in Note 5 of the Notes to Special Purpose Financial Statement was applied to the associated questioned costs identified in Notes A, B, C and D, which resulted in questioned (ineligible) indirect costs of \$4,291 and questioned (unsupported) indirect costs of \$20. See Findings 2021-01, 2021-02, 2021-03 and 2021-04.

(F) Outstanding Fund Balance

TMT had no outstanding fund balance as of December 31, 2021. The total outstanding fund balance as of December 31, 2021 in the amount of \$(76,225) represents the total questioned ineligible and unsupported costs of \$76,225 of the reported outstanding fund balance.

(G) Cost Share

TMT reported no cost share for the period January 1, 2021 through December 31, 2021. According to its invoices, TMT did report cost share of \$68,865 incurred prior to January 1, 2021. TMT needs to incur \$31,467 of cost share prior to April 30, 2023, which is the end of the period of performance of the Agreement, in order to comply with the terms of the Agreement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Turquoise Mountain Trust  
1 Earl Grey St, Edinburgh  
EH3 9EE, United Kingdom

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

We have audited, 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 (*Government Auditing Standards*), the Special Purpose Financial Statement of Turquoise Mountain Trust (TMT) under Cooperative Agreement No. 72030619CA00001 (Agreement) with the United States Agency for International Development (USAID) to support the Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program for the period January 1, 2021 through December 31, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered TMT's **internal** control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of TMT's internal control. Accordingly, we do not express an opinion on the effectiveness of TMT's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Detailed Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be

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prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Detailed Audit Findings as Findings 2021-01 and 2021-02 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Detailed Audit Finding as Findings 2021-03, 2021-04, 2021-05 and 2021-06 to be significant deficiencies.

### **TMT's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on TMT's response to the findings identified in our audit and described in the accompanying Detailed Audit Findings. TMT's response was not subjected to the other auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

### Purpose of this Report

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

### Restriction on Use

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

*Davis Funn LLP*

Irvine, California  
May 24, 2023

REPORT ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Turquoise Mountain Trust  
1 Earl Grey St, Edinburgh  
EH3 9EE, United Kingdom

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

We have audited, 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 (*Government Auditing Standards*), the Special Purpose Financial Statement of Turquoise Mountain Trust (TMT) under Cooperative Agreement No. 72030619CA00001 (agreement) with the United States Agency for International Development (USAID) to support the Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program for the period January 1, 2021 through December 31, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 24, 2023.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether TMT's **Special Purpose Financial Statement** is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and the aforementioned Agreement, noncompliance with which could have a direct and material effect on the Special Purpose Financial Statement. 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 six instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Finding Numbers 2021-01, 2021-02, 2021-03, 2021-04, 2021-05, and 2021-06.

**TMT's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on TMT's response to the findings identified in our audit and described in the accompanying Detailed Audit Findings. TMT's response was not subject to the other auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.



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

*Davis Fern LLP*

Irvine, California  
May 24, 2023

## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

### Detailed Audit Findings

For the Period January 1, 2021 through December 31, 2021

#### Finding 2021-01: Personal Travel Expenses

##### Nature of Finding:

Internal control – material weakness  
Noncompliance

##### Condition:

We tested 38 supplies transactions totaling \$42,853 out of a population of 1,585 supplies transactions totaling \$151,004 and noted one transaction in the amount of \$524 that was for the personal travel expenses of an employee while on leave. We reviewed the general ledger detail and noted an additional 103 transactions for the travel expense of employees while on leave. These consisted of one transaction in the amount of \$39 reported under supplies, and 102 transactions in the amount of \$39,497 reported under fringe benefits. This resulted in total personal travel expenses of \$40,060 that were included in the SPFS. The personal travel expenses consisted of airfare, lodging, car rental and COVID-19 testing while employees were on rest and recuperation (R&R). Travel was to destinations including Dubai, Turkey, Venice, London, Stockholm, Los Angeles, Chicago and Detroit.

##### Criteria:

Cooperative Agreement No. 72030619CA00001, Attachment D, *Standard Provisions for Non US Nongovernmental Organizations*, RAA8, *Travel and International Air Transportation*, states, in part:

#### **"a. Travel Costs**

All travel costs must comply with the applicable cost principles and must be consistent with those normally allowed in like circumstances in the recipient's non-USAID-funded activities. Costs incurred by employees and officers for travel, including air fare, costs of lodging, other subsistence, and incidental expenses, may be considered reasonable and allowable only to the extent such costs do not exceed reasonable charges normally allowed by the recipient in its regular operations as the result of the recipient organization's written travel policy and are within the limits established by the **applicable cost principles...**

#### c. Definitions

The terms used in this provision have the following meanings:

**(1) "Travel costs" means** expenses for transportation, lodging, subsistence (meals and incidentals), and related expenses incurred by employees who are on travel status on official business of the recipient for any travel outside the country in which the organization is located. **"Travel costs" do not include expenses** incurred by employees who are not on official business of the recipient, such as rest and recuperation (R&R) **travel offered as part of an employee's benefits package that are consistent with the recipient's personnel and travel policies and procedures..."**

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

2 CFR §200.475(a), *Travel costs*, states, in part:

“General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity...”

Cause:

TMT’s Chief Finance Officer (CFO) misinterpreted the Agreement and Code of Federal Regulations (CFRs) as he believed that if TMT’s own policies and procedures allowed the payment of personal travel expenses, then these expenses were also eligible for Federal reimbursement.

Effect:

TMT’s lack of understanding of the Agreement and CFRs led to ineligible costs being charged to the Program, and a potential increased risk of other/additional ineligible expenses to Federal awards.

Questioned Costs:

Total questioned costs resulting from the ineligible personal travel transactions charged to the Agreement was \$44,066, including associated indirect costs of \$4,006 as follows:

	<u>Fringe Benefits</u>	<u>Supplies</u>	<u>Total Questioned Costs</u>
Questioned costs	\$39,497	\$563	\$40,060
Associated questioned indirect costs	<u>3,950</u>	<u>56</u>	<u>4,006</u>
Totals	<u>\$43,447</u>	<u>\$619</u>	<u>\$44,066</u>

Recommendation:

- (1) We recommend that TMT either provide adequate documentation to support that the travel costs were incurred while employees were on official business, or return \$44,066 to the U.S. Government for ineligible personal travel expenses.
- (2) We recommend that the CFO develop procedures to ensure the requirements of the Agreement and the CFRs related to personal travel expenses are followed.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
 Cooperative Agreement No. 72030619CA00001  
 Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

Finding 2021-02: Excess Indirect Costs Charged to Agreement

Nature of Finding:  
 Internal control – material weakness  
 Noncompliance

Condition:

TMT charged indirect costs in excess of the amount allowable for the period January 1, 2021 through December 31, 2021 as follows:

<u>Cost Category</u>	<u>Costs per SPFS</u>	<u>Adjustments</u>	<u>Modified Total Direct Costs</u>
Personnel	\$1,336,022	\$ 0	\$1,336,022
Fringe benefits	207,506	0	207,506
Travel	38,565	0	38,565
Program equipment	36,218	(36,218)	0
Supplies	151,004	(49,781)	101,223
Sub-grant/contracts	180,633	(180,633)	0
Security	90,452	0	90,452
Other direct costs	<u>85,865</u>	<u>0</u>	<u>85,865</u>
Totals	<u>\$2,126,265</u>	<u>\$(266,632)</u>	1,859,633
Indirect cost rate			<u>10%</u>
Allowable indirect costs			185,963
Indirect costs on SPFS			<u>214,773</u>
Excess indirect costs charged			<u>\$ 28,810</u>

Allowable indirect costs can be charged based upon modified total direct costs. TMT did not exclude sub-grant/contracts costs in excess of the first \$25,000 per sub-grant/contract, as well as rental costs for buildings and vehicles from total costs to arrive at modified total direct costs on which the indirect cost rate is applied.

Criteria:

Cooperative Agreement No. 72030619CA00001, Attachment A, *Schedule*, Section A.6, *Indirect Costs*, states:

**“Allowable indirect costs shall be reimbursed in accordance with 2 CFR 200.414 (f) at a de minimis rate of 10% of modified total direct costs (MTDC). MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each sub-award (regardless of the period of performance of the sub-awards under the award). MTDC excludes equipment, capital expenditures,**

## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

### Detailed Audit Findings

(Continued)

charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each sub-award in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the Cognizant agency for indirect costs.”

2 CFR §200.414(f), *Indirect costs*, states, in part:

“...any non-Federal entity that does not have a current negotiated (including provisional) rate...may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely...”

#### Cause:

TMT does not have policies and procedures over the application of indirect costs. TMT directly charged costs which were indirect in nature as indirect costs on the SPFS instead of applying the 10% de minimis indirect cost rate on its invoices in accordance with the terms of the Agreement.

#### Effect:

Charging indirect costs in excess of those allowable per the Agreement results in the U.S. Government paying for ineligible expenses, as well as a potential increase in the risk of additional excess charges to the U.S. Government.

#### Questioned Costs:

Total ineligible costs resulting from indirect costs charged in excess of allowable amounts was \$28,810.

#### Recommendation:

- (1) We recommend that TMT either provide documentation to USAID to support that it correctly calculated and invoiced its indirect costs, or return \$28,810 to the U.S. Government for ineligible indirect costs.
- (2) We recommend that TMT implement procedures to ensure that invoices prepared to the U.S. Government charge indirect costs in accordance with the terms of the award.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

Finding 2021-03: Costs Incurred Outside of SPFS Period

Nature of Finding:

Internal control – significant deficiency  
Noncompliance

Condition:

TMT prepared its SPFS on the accrual basis of accounting, but recorded some transactions on the cash basis of accounting. Under the accrual basis of accounting, expenses are reported in the period in which they are incurred. Under the cash basis of accounting, expenses are reported in the period in which they are paid regardless of when they are incurred. Reporting expenses on the cash basis when the SPFS is prepared on the accrual basis of accounting resulted in an overstatement of costs for the period audited. We tested 21 out of 91 sub-grant/contractual payments totaling \$37,012 out of \$180,633 in total costs. TMT included 1 sub-grant/contractual transaction totaling \$2,845 which was incurred prior to January 1, 2021 on its SPFS. It could not be determined whether the costs were not billed in the prior year.

Criteria:

2 CFR §200.34, *Expenditures*, states, in part:

**“Expenditures means charges made by a non-Federal entity to a project or program for which a Federal award was received.**

(a) The charges may be reported on a cash or accrual basis, as long as the **methodology is disclosed and is consistently applied...**

(c) For reports prepared on an accrual basis, expenditures are the sum of: (1) **Cash disbursements for direct charges for property and services;** (2) **The amount of indirect expense incurred;** (3) **The value of third-party in-kind contributions applied;** and) (4) **The net increase or decrease in the amounts owed by the non-Federal entity for...**

(ii) **Services performed by employees, contractors, subrecipients, and other payees...”**

2 CFR §200.403, *Factors affecting allowability of costs*, states, in part:

**“...costs must meet the following general criteria in order to be allowable under Federal awards:...**

(e) Be determined in accordance with generally accepted accounting principles **(GAAP)...**”

## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

### Detailed Audit Findings

(Continued)

Cooperative Agreement No. 72030619CA00001, Attachment D, *Standard Provisions for Non U.S. Nongovernmental Organizations*, Section M2, *Accounting, Audit, and Records (October 2017)*, states, in part:

**"a.** Records and Accounting. The recipient must maintain financial records, supporting documents, statistical records and all other records, to support performance of, and charges to, this award. Such records must comply with accounting principles generally accepted in the U.S., the cooperating country, or by the International Accounting Standards Board (a subsidiary of the International Financial Reporting Standards Foundation)..."

Financial Manual Turquoise Mountain Afghanistan Policies and Procedure, Section 1.1, *Accrual Basis of Accounting*, states:

"Financial statements are prepared using the Accrual Basis of Accounting whereby the effect of transactions and other events are recognized when they occur—not as cash or its equivalent is received or paid."

#### Cause:

TMT received the invoice during 2021 and did not identify the costs as having been incurred during the previous year.

#### Effect:

Not reporting sub-grant/contractual expenses on the accrual basis of accounting resulted in an overstatement of sub-grant/contractual costs incurred for the period January 1, 2021 through December 31, 2021, as well as noncompliance with Federal regulations **and TMT's procedures**. Additionally, there is potential that the costs may have been billed twice to the U.S. Government.

#### Questioned Costs:

Total ineligible questioned costs are \$3,130, which consists of \$2,845 in sub-grant/contractual costs incurred prior to January 1, 2021 plus \$285 of associated indirect costs.

#### Recommendation:

- (1) We recommend that TMT either provide evidence that the costs incurred outside of the audit period were not previously billed to USAID, or return \$3,130 to the U.S. Government.
- (2) We recommend that TMT establish procedures to ensure that the accrual basis of accounting is consistently used on future financial reports

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

Finding 2021-04: Insufficiently Supported Costs

Nature of Finding:

Internal control – significant deficiency

Noncompliance

Condition:

During our testing procedures, we tested the following cost categories to ensure the incurred costs were allowable, reasonable, and allocable to the agreement:

- We tested 57 out of 1,433 personnel transactions totaling \$59,344 and noted that for two transactions we were unable to recalculate the labor costs charged using the timesheets and Human Resources records provided, which resulted in unsupported personnel transactions in the amount of \$15.
- We tested 38 out of 1,585 supplies transactions totaling \$42,853 and noted that for one transaction no documentation such as an invoice, payment voucher or check was provided to support the costs incurred, which resulted in unsupported supplies costs in the amount of \$170.
- We tested 21 out of 91 sub-grant/contractual payments totaling \$37,012 and noted that for one transaction the invoice provided did not support the full costs incurred for the transaction, which resulted in unsupported sub-grant/contractual costs of \$14.

Criteria:

2 CFR §200.403, *Factors affecting allowability of costs*, states, in part:

**“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:...**

**(g) Be adequately documented...”**

Cooperative Agreement No. 72030619CA00001, Attachment D, *Standard Provisions for Non U.S. Nongovernmental Organizations*, Section M2, *Accounting, Audit, and Records (October 2017)*, states, in part:

**“a. Records and Accounting.** The recipient must maintain financial records, supporting documents, statistical records and all other records, to support performance of, and charges to, this award...**Accounting records and supporting** documentation must, at a **minimum, be adequate to show all costs incurred under this award...”**

Financial Manual Turquoise Mountain Afghanistan Policies and Procedure, Section 4.8, *Transaction Control*, states:



TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

**"All the financial transactions of TMT shall be made in accordance with the donor guidelines and procedures of TMF[sic], and shall be supported by the authenticated documents: agreements, invoices, bills, receipts etc. Finance and operations offices will ensure that accuracy and completion of documents is ensured."**

Cause:

For the unsupported personnel costs, TMT incorrectly calculated the pay due to clerical error. For the unsupported supplies and sub-grant/contractual costs, TMT indicated it was unable to locate the invoices as they were likely misfiled.

Effect:

A lack of complete documentation of costs increases the risk that the Government will pay for non-allowable and unreasonable goods and/or services.

Questioned Costs:

The total questioned costs (unsupported) pertaining to personnel, supplies and sub-grant/contractual costs resulting from insufficiently supported transactions charged to the Agreement was \$219, including associated indirect costs of \$20 as follows:

<u>Cost Category</u>	<u>Questioned Costs</u>	<u>Associated Indirect Costs</u>	<u>Total Questioned Costs</u>
Personnel	\$ 15	\$ 2	\$ 17
Supplies	170	17	187
Sub-grant/contractual	<u>14</u>	<u>1</u>	<u>15</u>
Totals	\$199	<u>\$20</u>	<u>\$219</u>

Recommendation:

- (1) We recommend that TMT either provide adequate documentation to support the costs incurred or return \$219 to the U.S. Government.
- (2) We recommend that TMT review all manual calculations of pay to ensure they are mathematically correct, and that documentation such as invoices are retained to support costs incurred as required by its Financial Manual, the Agreement, and the Code of Federal Regulations.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

Finding 2021-05: Lack of Evidence for Exclusion and/or Anti-Terrorist Check

Nature of Finding:

Internal control – significant deficiency  
Noncompliance

Condition:

During our testing of 47 out of 47 transactions, consisting of 38 transactions for supplies and 9 transactions for other direct costs, no documentation was provided to support whether TMT performed an exclusion and/or anti-terrorist check on any of its vendors.

Criteria:

2 CFR §200.303, *Internal controls*, states, in part:

The non-Federal entity must:...

(b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms **and conditions of the Federal awards...**

Cooperative Agreement No. 72030619CA00001, Attachment D, *Standard Provisions for Non U.S. Nongovernmental Organizations*, Section M12, *Debarment and Suspension (June 2012)*, states, in part:

"a. The recipient must not transact or conduct business under this award with any individual or entity that has an active exclusion on the System for Award Management (SAM) ([www.sam.gov](http://www.sam.gov)) unless prior approval is received from the Agreement Officer..."

Cooperative Agreement No. 72030619CA00001, Attachment E, *Special Provisions Specific to Afghanistan (Assistance)*, Section E.5, *USAID/Afghanistan Vetting Requirement (November 2016)*, states, in part:

**"The recipient must comply with USAID/Afghanistan's Mission Order 201.06, National Security Screening (Non-U.S. Party Vetting).**

A. In accordance with USAID/Afghanistan Mission Order 201.06 - National Security Screening (Non-U.S Party Vetting) the recipient must complete and submit a "USAID Information Form" for:

a. Itself, if it is a non-U. S. entity;

b. Each subcontractor or subcontractor of a subcontractor, regardless of the tier, valued cumulatively at \$25,000 or more, that is a non-U.S. entity; or

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

- c. Each key individual that is a non-U.S. entity..."

Cause:

TMT indicated it conducted background checks on its vendors, but did not document an exclusion or anti-terrorist check performed using the System for Award Management. TMT did not believe it was necessary to document this effort.

Effect:

The lack of supporting documentation that exclusion or anti-terrorist checks were performed increases the risk that Federal funds were used in the support of terrorist activities.

Questioned Costs:

We performed exclusion and/or anti-terrorist checks of the vendors in question and noted that none of the vendors appear on an exclusion and/or anti-terrorist list. As such, no costs were questioned.

Recommendation:

We recommend that TMT establish procedures and instruct management to ensure that exclusion and/or anti-terrorist checks are documented, retained, and made available for audit when requested by the U.S. Government or its representatives in accordance with the terms of the Agreement.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

Finding 2021-06: Misclassification of Expenses

Nature of Finding:

Internal control – significant deficiency  
Noncompliance

Condition:

We tested 57 out of 1,433 personnel transactions totaling \$59,344 out of \$1,337,789 of total personnel costs incurred and noted two transactions totaling \$1,767 that should have been reported under fringe benefits. These costs were otherwise allowable under the terms of the Agreement. These costs have subsequently been reclassified on the SPFS.

Criteria:

2 CFR §200.403, *Factors affecting allowability of costs*, states, in part:

**“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:...**

(b) Conform to any limitations or exclusions set forth in these principles or in the **Federal award as to types or amount of cost items...**

(e) Be determined in accordance with generally accepted accounting principles **(GAAP)...**”

2 CFR §200.405(a), *Allocable costs*, states, in part:

**“A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received...”**

Cause:

TMT incorrectly coded the fringe benefits costs as personnel costs due to clerical error and a lack of adequate supervisory review over the posting of transactions.

Effect:

Misclassification of costs on the SPFS could result in unallowable or unallocable costs billed under the Agreement. In addition, misclassifications could result in amounts billed in excess of Agreement budget amounts.

TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

Detailed Audit Findings

(Continued)

Questioned Costs:

There are no questioned costs associated with this finding because the costs have been reclassified on the SPFS and the costs were allowable under the Agreement. After reclassification, the dollar amounts of the individual line items are within the budget.

Recommendation:

We recommend that TMT implement procedures to ensure that a supervisor is required to review transactions to ensure they are posted to the proper accounts.

# TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

## Status of Prior Audit Findings

For the Period January 1, 2021 through December 31, 2021

We requested from TMT, SIGAR and the USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to TMT's activities under the Agreement. We obtained and reviewed 5 prior reports, which consisted of three annual financial audits and 2 prior USAID audits. Our review of these reports noted the following:

Reports with no findings	3
Reports with findings that were reviewed by other auditors and corrective actions were deemed adequate	1
Reports with findings requiring our evaluation of corrective actions	1
Total number of reports reviewed	<u>5</u>

One report contained one finding that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We performed follow up procedures including discussion with management, reviewed the revised policies and procedures, and conducted testing of similar areas surrounding these issues. Accordingly, we have concluded that TMT has taken adequate corrective actions on the prior findings and these findings were not repeated under this audit. The prior audit finding we reviewed and its current status is as follows:

USAID Audit Report: Audit of the Fund Accountability Statement of TMT for Cooperative Agreement No. 72030619CA00001 for the period January 1, 2020 to December 31, 2020, which was performed by SFAI Assurance Kabul Chartered Accountants and dated November 28, 2021

This audit report included a management letter that contained one finding which could have a potential material effect on the SPFS or other financial data significant to the audit objectives. The results of our review are as follows:

- Finding 1 (Fixed Asset List Verification): The audit firm noted that they were unable to perform a physical verification of four assets selected from the project's Fixed Asset list.

Status: During our testing of equipment costs, we reviewed a sample of fixed asset acquisitions and noted that the transactions were properly supported and included approval by USAID. As such, the corrective action has been adequately implemented.



**Finding # 2021-01 - Personal Travel Expenses**

The classification of expenses identified is incorrect as they fall under the ‘Fringe Benefits’. Per the references of USAID’s standard guidelines shared earlier (<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRed1f39f9b3d4e72/section-200.431>) it reads the “Fringe Benefits” as under:

Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-Federal entity-employee agreement, or an established policy of the non-Federal entity.

#	Guidance from section 200.431 (b) 1-3	Response to guidance
1	They are provided under established written leave policies;	Personel leaves for international staff working in Afghanistan was committed through individual contract agreements.
2	The costs are equitably allocated to all related activities, including Federal awards; and,	All costs related to persons 100% allocated to USAID program.
3	The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the non-Federal entity or specified grouping of employees.	Accrued leave was charged in the period in which was utilized.

Per the above all fringe benefits are allowable under contract with Turquoise Mountain Trust which includes “Personal Travel Allowances”. We believe the findings do not reflect the actual nature of the costs and should remain allowable under the contract terms.

**Finding # 2021-02 - Excess Indirect Costs Charged to the Agreement**

The “Indirect Costs” allowable under the contract agreement were charged on an equal monthly basis resulting in a variation each year. The summary below identifies the net undercharge of “Indirect Costs” at the end of the original contract period (April 30th 2023) and therefore, we do not believe any amounts are re-payable.

Indirect charges from May 2023 will be charged according to the actual costs incurred after MTDC adjustment to remove any ongoing variation.

#	Years	Actual Indirect Charges	Allowable MTDC Budget	Variance Actuals to Allowables
1	2019	144,348	142,878	(1,470)
2	2020	128,629	177,830	49,201
3	2021	214,773	185,963	(28,810)
4	2022	152,371	206,213	53,842
5	2023 (Jan-Apr)	113,488	68,209	(45,279)
<b>Total</b>		<b>753,611</b>	<b>781,094</b>	<b>27,484</b>



**Finding # 2021-03 - Costs Incurred Outside of SPFS Period**

After discussion with our sub-grantees they confirmed that the invoice for the services was received late and had been mistakenly missed from accrual entries. As the costs had not been reported and charged to USAID in any prior period we do not believe that they should be disallowed.

Our sub-grantee contacted their service provider for more timely invoicing and re-enforced accrual accounting for these costs in future period.

**Finding # 2021-04 - Insufficiently Supported Costs**

After discussion with our sub-grantee we recognise the value of \$219 being repayable to USAID.

**Finding # 2021-05 - Lack of Evidence for exclusion and/or anti-terrorist Check**

Annual checks via the SAM system are conducted for all sub-grantees and key individuals per the agreement terms.

TMT has vendor checks in place i.e while making payments we obtain official letters from suppliers confirming the recipient of the payment, collecting comparative prices and supplier details for any major procurements. We recognise that the auditor performed exclusion and/or anti-terrorist checks on specific vendors and noted that none of the vendors appear on an exclusion and/or anti-terrorist list.

TMT has reviewed the recording of enhanced vendor checks for sanctions, no flags have been identified and we can confirm that the audit samples identified do not appear on exclusion and/or anti-terrorist lists.

**Finding # 2021-06 - Misclassification of Expenses on the SPFS**

TMT agreed to the reclassification of the expenses and accordingly reflected in the SPFS submitted. We have updated and provided additional financial guidance for our finance staff to do additional checks while posting transactions and costs types in the accounts.



## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

**Auditor's Rebuttal to TMT's Response to Findings**

For the Period January 1, 2021 through December 31, 2021

TMT disagreed with Findings 2021-01 and 2021-02, partially agreed with Finding 2021-03, and agreed with Findings 2021-04, 2021-05 and 2021-06. **We have reviewed management's response** for its disagreements and provide the following rebuttals to the disagreements for Findings 2021-01, 2021-02 and 2021-03.

Finding 2021-01: Personal Travel Expenses

TMT disagreed with this finding indicating that personal travel expenses are part of TMT's fringe benefits and thus should be allowable. It further stated that fringe benefits include the costs of leave for vacation, family-related, sick or military, employee insurance, pensions and unemployment benefit plans. TMT cites 2 CFR §200.431(b) as guidance. This criteria states, in part:

*"Leave. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable..."*

The primary point in this criteria is that leave is allowable in the form of regular compensation. There is no mention in the criteria of travel costs incurred by an employee while on leave. Furthermore, as stated in the finding, the Cooperative Agreement specifically excludes travel costs while an employee is on rest and recuperation (R&R) and not on official business. The questioned costs associated with this finding all represent travel costs while an employee was on R&R and not on official business, thus the costs are not allowable per the terms of the Cooperative Agreement. As such, this finding remains unchanged.

Finding 2021-02: Excess Indirect Costs Charged to Agreement

TMT disagreed with this finding indicating that it charges indirect costs on an equal monthly basis and plans to true-up the indirect costs in April 2023, the end of the period of performance. The schedule provided in its management response confirms that indirect costs were overcharged for the period January 1, 2021 through December 31, 2021. Additionally, the cooperative agreement does not allow for indirect costs to be charged on an equal monthly basis. Instead, the indirect costs are required to be charged at 10% of modified total direct costs. As such, this finding remains unchanged.

## TURQUOISE MOUNTAIN TRUST

Audit of the Special Purpose Financial Statement  
Cooperative Agreement No. 72030619CA00001  
Exports, Jobs and Market Linkages in Carpet and Jewelry Value-Chains Program

**Auditor's Rebuttal to TMT's Response to Findings**

(Continued)

Finding 2021-03: Costs Incurred Outside of SPFS Period

TMT agreed that the costs identified were incurred outside of the SPFS period and those costs should not have been included in the SPFS. TMT disagrees with the questioned costs indicating that it did not previously report or claim the costs under the award. Since the costs were incurred outside of the audit period as agreed to by TMT and no documentation was provided to support whether the costs were previously claimed, this finding remains unchanged.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

## Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publicly released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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## SIGAR's Mission

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