

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 22-17 Financial Audit

USAID's Community-Based Support Services for Crisis and Disaster-Affected Communities in Afghanistan: Audit of Costs Incurred by [REDACTED]

In accordance with legal requirements, SIGAR has redacted certain information deemed proprietary or otherwise sensitive from this report.



APRIL
2022

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 23, 2019, the U.S. Agency for International Development (USAID) awarded a \$3,500,000 grant to [REDACTED] to provide community-based support for crisis and disaster-affected communities, and [REDACTED]. The grant had an initial period of performance from September 1, 2019, through August 31, 2020. USAID modified the grant one time, which extended the period of performance end date to October 31, 2020.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$3,493,277 in costs charged to the agreement from September 1, 2019, through October 31, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in [REDACTED] internal controls related to the grant; (2) identify and report on instances of material noncompliance with the terms of the grant and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether [REDACTED] has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of [REDACTED] 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. SIGAR's 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.

April 2022

USAID's Community Based-Support Services for Crisis and Disaster-Affected Communities in Afghanistan: Audit of Costs Incurred by [REDACTED]

SIGAR 22-17-FA

WHAT SIGAR FOUND

Conrad identified three deficiencies in [REDACTED] internal controls, one of which was material and another significant. They also identified three instances of noncompliance with the terms of the grant. For example, [REDACTED] charged the costs of positions not identified in the approved budget, paid salaries in excess of the approved budget, and overcharged some salary costs.

As a result of the internal control and noncompliance issues, Conrad identified \$182,459 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the agreement and applicable laws and regulations. Conrad did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Salary and Wages	\$120,603	\$0	\$120,603
Fringe Benefits	\$25,002	\$0	\$25,002
Travel and Transportation	\$2,134	\$0	\$2,134
Indirect Costs	\$34,720	\$0	\$34,720
Total Costs	\$182,459	\$0	\$182,459

Conrad identified one prior audit report that was relevant to [REDACTED] agreement. The report had two findings that could have a material effect on the SPFS. Conrad conducted follow-up procedures and concluded that [REDACTED] took adequate corrective action on the auditor's recommendations for the two findings.

Conrad issued a modified opinion on [REDACTED] SPFS and noted that the total questioned cost amount is material to the Special Purpose Financial Statement.

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, \$182,459 in questioned costs identified in the report.
2. Advise [REDACTED] to address the report's three internal control findings.
3. Advise [REDACTED] to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 5, 2022

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

Ms. Sarah Charles
Assistant to the Administrator, USAID Bureau for Humanitarian Assistance

Mr. Peter Duffy
USAID Mission Director for Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by [REDACTED], under a grant from the U.S. Agency for International Development (USAID), to provide community-based support services for crisis and disaster-affected communities, and [REDACTED].¹ Conrad reviewed \$3,493,277 in costs charged to the agreement from September 1, 2019, through October 31, 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 agreement officer at USAID:

1. **Determine the allowability of and recover, as appropriate, \$182,459 in questioned costs identified in the report.**
2. **Advise [REDACTED] to address the report's three internal control findings.**
3. **Advise [REDACTED] 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 [REDACTED] Special Purpose Financial Statement. We also express no opinion on the effectiveness of [REDACTED] internal control or compliance with the agreement, 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-216)

¹ The grant number is [REDACTED].

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy,
Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster
Assistance to support the Provision of Community Based Gender-Based Violence
(GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities
in Afghanistan

For the period September 1, 2019 through October 31, 2020

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March 23, 2022

Board of Directors
[REDACTED]
[REDACTED]

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 the [REDACTED] Special Purpose Financial Statement for costs incurred under Grant Agreement No. [REDACTED] ("Grant Agreement") awarded by the United States Agency for International Development's Democracy, Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance for the period September 1, 2019 through October 31, 2020, to support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan.

On January 20, 2022, we provided SIGAR with a draft report reflecting our audit procedures and results. [REDACTED] received a copy of the report on February 25, 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 [REDACTED]. [REDACTED] 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 the Grant Agreement.

Sincerely,

A handwritten signature in blue ink that reads "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Background

On September 23, 2019, the United States Agency for International Development's Democracy, Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance ("USAID/DCHA/OFDA" or "USAID"), awarded Grant Agreement No. [REDACTED] ("Grant Agreement") to [REDACTED] to support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan program (the "Program"). The objective of the Program is to prevent and respond to GBV through sensitization of targeted communities and implementation of a survivor centered approach. [REDACTED]

As detailed in the *Summary of Grant Agreement* below, the initial approved budget was \$3,500,000 with a period of performance from September 1, 2019 through August 31, 2020. USAID issued a pre-award letter to [REDACTED] on August 30, 2019, to cover any pre-award costs incurred on or after September 1, 2019 till the award date of September 23, 2019. There was only one subsequent modification to the Grant Agreement which extended the period of performance end date to October 31, 2020.

Summary of Grant Agreement

Grant Agreement Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
[REDACTED]*	\$3,500,000	09/01/19	08/31/20	1	No change	10/31/20

* Indicates close-out audit.

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 Grant Agreement, as previously mentioned above, of [REDACTED]' Special Purpose Financial Statement ("SPFS") for costs incurred under the Provision of Community Based GBV and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan program for the period from September 1, 2019 through October 31, 2020, with a total incurred cost of \$3,493,277.

(Continued)



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development’s Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
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For the period September 1, 2019 through October 31, 2020

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit of the aforementioned award include the following:

- *Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether [REDACTED] SPFS for the award presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of [REDACTED] internal controls related to the award, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether [REDACTED] complied, in all material respects, with the award 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 [REDACTED] 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 during the period of September 1, 2019 through October 31, 2020 totaling \$3,493,277 under the Grant Agreement. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the Grant Agreement and subsequent applicable Negotiated Indirect Cost Rate Agreement (“NICRA”).

Methodology

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

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Entrance Conference

An entrance conference was held via conference call on August 9, 2021. Participants included representatives from Conrad, [REDACTED], SIGAR, and USAID/DCHA/OFDA. 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 performed the following:

- Obtained an understanding of [REDACTED];
- Reviewed the Grant Agreement and all modifications;
- Reviewed specific USAID/DCHA/OFDA regulations that are applicable to the Grant Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. Based on our 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 transactions that were considered to be high to medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs were identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Grant Agreement, 2 Code of Federal Regulations Part 200 ("2 CFR 200"), 2 Code of Federal Regulations Part 700 ("2 CFR 700"), and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we did not identify any related party transactions.
 - High risk cost categories – sample transactions that are greater than \$17,500 not to exceed 30% of the total amount expended for each cost category.
 - Medium risk cost categories – sample transactions that are greater than \$35,000 not to exceed 20% of the total amount expended for each cost category.

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

- Low risk cost categories – sample transactions that are greater than \$35,000 not to exceed 10% of the total amount expended for each cost category, and not to exceed 50 transactions in total for all accounts comprising low risk categories.

Internal Controls Related to the Grant Agreement

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

Compliance with the Grant Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether [REDACTED] complied, in all material respects, with the Grant Agreement requirements, including close out requirements, 2 CFR 200, 2 CFR 700, and any other applicable laws and regulations. We also identified and reported 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

We requested from [REDACTED], as well as conducted a search online of various governmental websites including SIGAR, USAID, and other Federal agencies, to identify previous engagements that could have a material effect on [REDACTED] 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 33.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Grant Agreement and applicable general ledger;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Reviewed personnel costs to ensure they are supported, authorized, reasonable, and allowable; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Grant Agreement, and reasonable.

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Exit Conference

An exit conference was held on January 11, 2022 via conference call. Participants included representatives from Conrad, [REDACTED], SIGAR, and USAID/DCHA/OFDA. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

As a result of our procedures, we issued a modified opinion on the SPFS and identified three findings that amounted to \$182,459 in questioned costs. 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 results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the fairness of the presentation of the SPFS. We identified \$182,459 in total questioned costs, which is all comprised of ineligible costs.

Internal Controls and Compliance

Conrad also reported on [REDACTED] internal controls over financial reporting and compliance with laws, rules, and regulations, and the terms and conditions of the agreements. We identified one material weakness, one significant deficiency, and one deficiency in [REDACTED] internal controls, and three instances of non-compliance. In performing our testing, we considered whether the information obtained resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. [REDACTED] self-disclosed nine instances of alleged fraud that could have potentially impacted the Program and the SPFS. Based on further discussions with [REDACTED] and review of the alleged frauds, an internal investigation into these allegations was completed and the results found that there was no material effect to the Program or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

In response to the identified instances of non-compliance, we identified \$182,459 in total questioned costs, which is all comprised of ineligible costs. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the award provisions or 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. The following summarizes the audit results:

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2022-01	Non-compliance and Internal Control – Material Weakness	Deviations from the original budget without approval from funding agency, resulting in ineligible costs charged to the Program	\$ 175,166	\$ -	\$ 175,166
2022-02	Non-compliance and Internal Control – Significant Deficiency	Unallowable salary and travel costs charged to the Program	7,293	-	182,459
2022-03	Non-compliance and Internal Control – Deficiency	[REDACTED] was unable to provide evidence of employee reference checks	-	-	182,459
Total Questioned Costs			\$ 182,459	\$ -	\$ 182,459

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to [REDACTED] activities under the Grant Agreement, we identified one prior engagement identifying two 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 holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. Based on our review, [REDACTED] has taken adequate corrective actions on the two recommendations; however, a payroll related issue was noted during this audit. See *Status of Prior Audit Findings* on page 33 for a detailed description of the prior findings and recommendations.

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Summary of [REDACTED] Responses to Report and Findings

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

(1) Opinion on the Audit Report: Modified Opinion

[REDACTED] does not concur with the Modified Opinion as [REDACTED] believes that there is no basis for issuing such an opinion as it has provided sufficient evidence to various aspects of the questioned transactions, and that Conrad did not find any material misstatements. [REDACTED] does not accept Finding No. 2022-01 nor Finding No. 2022-03; however, does accept Finding No. 2022-02.

(2) **Finding 2022-01:** [REDACTED] does not concur with the budget deviation issues identified in this report and maintains that funding agency approval is not necessary for such deviations and that they conformed with internal policies and authoritative requirements. As such, it is their stance that there were no ineligible costs charged to the Program and requests that the finding be removed from the report.

(3) **Finding 2022-02:** [REDACTED] concurs with the finding and will credit the ineligible costs identified.

(4) **Finding 2022-03:** [REDACTED] does not concur with the identified issue regarding the inability to provide evidence of employee reference checks as it is their stance that the evidence that was provided showed that there is a system in place and that reference checks were obtained prior to employment. In addition, [REDACTED] stated that some checks were said to be completed prior to the project start date and that its internal policies do not state that such checks must be saved for an indefinite amount of time. Furthermore, [REDACTED] stated that some records were archived pursuant to its record retention policy; however, due to the security situation in Afghanistan the archive was not fully accessible to personnel and that other constraints existed following the fall of the Islamic Republic of Afghanistan. As such, [REDACTED] requests that the finding be removed from the report.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
[REDACTED]

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 [REDACTED] and the related notes to the Special Purpose Financial Statement, with respect to Grant Agreement No. [REDACTED], the Provision of Community Based Gender-based Violence (GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan, for the period of September 1, 2019 through October 31, 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 [REDACTED] 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 [REDACTED] 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 audit opinion.

Basis for Qualified Opinion

We identified \$182,459 in questioned costs resulting from a significant deficiency and a material weakness in internal controls and non-compliance with the terms and conditions of the Grant Agreement. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Qualified Opinion

In our opinion, except for the possible effect 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 revenues earned, costs incurred, and balances for the indicated period in accordance with the terms of the Grant Agreement for the period of September 1, 2019 through October 31, 2020 and in conformity with the basis of presentation and accounting described in Notes 1 and 2.

Basis of Presentation and Accounting

We draw attention to Notes 1 and 2 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Note 1 and 2 to the Special Purpose Financial Statement, the statement is prepared by [REDACTED] on the basis of the requirements provided by the Grant Agreement, 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 March 22, 2022 on our consideration of [REDACTED] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 [REDACTED] internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of [REDACTED], the United States Agency for International Development's Democracy, Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance, 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.



Lake Forest, California
March 22, 2022

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Grant Agreement No. [REDACTED]	\$3,500,000	\$3,493,277	\$ -	\$ -	\$ -	(4)
Total revenues	<u>3,500,000</u>	<u>3,493,277</u>	-	-	-	
Costs incurred:						
Salary and wages	1,725,650	1,448,298	120,603	-	120,603	(A)
Fringe benefits	309,927	428,729	25,002	-	25,002	(A)
Travel and transportation	255,317	228,831	2,134	-	2,134	(B)
Equipment	7,800	15,229	-	-	-	
Program supplies	316,352	409,559	-	-	-	
Contractual	-	-	-	-	-	
Other direct costs	218,962	297,918	-	-	-	
Indirect costs	<u>665,992</u>	<u>664,713</u>	<u>34,720</u>	-	<u>34,720</u>	(C)
Total costs	3,500,000	3,493,277	<u>\$ 182,459</u>	<u>\$ -</u>	<u>\$182,459</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



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No.

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Notes to Special Purpose Financial Statement¹

(1) Basis of Presentation

The financial statement has been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The organization classifies revenue, gains, expenses, and losses based on the existence of absence of donor-imposed restrictions. Accordingly, net assets and changes are classified and reported as net assets without donor restrictions or net assets with donor restrictions. For the audited award, the net assets are not subject to donor-imposed stipulations or law and may be expendable for the purpose in performing the Organization's primary objective, thus are classified, and reported as net assets without donor restrictions.

(2) Basis of Accounting

For preparing year-end and end of grant financial statements, observes the accrual method of accounting. Accrual method is the accounting method that records revenues when earned and expenses when they are incurred, regardless of when cash is exchanged. The term "accrual" refers to any individual entry recording revenue or expense in the absence of a cash transaction.

(3) Foreign Currency Conversion Method

Unless donor regulations specify otherwise, all conversions of local currency to USD is tracked using the weighted average method. That is, all disbursements made in local currency are translated back to USD at various dates and amounts, using the weighted average exchange rate during the month. The basic theory that is being applied in using the weighted average exchange rate is to use a rate that brings the actual value at the end of the month. The aim is to minimize any loss or gain on exchange.

(4) Revenues

Grant or contract funds received for which no corresponding expenditure has yet been made are accounted for as refundable advances. Expenditures made in advance of funds are received and recorded as grants receivables. Interest earned on federal funds is the property of the federal government and, if earned, is remitted to the federal government on a regular basis. Accordingly, such interest is not reflected as revenue in the financial statements.

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



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Notes to Special Purpose Financial Statement¹

In accordance with ASU 2018-08, Not-for-profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, grants and contracts awarded by federal or other sponsors, which are generally considered nonreciprocal transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreement are met. Contributions are conditional if the agreement includes both barriers that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. Conditional promises to give are not recognized until they become unconditional, that is, when the barriers on which they depend are met.

(5) Costs Incurred by Budget Category

Costs Billed

Salaries and wages	\$ 1,448,298
Fringe benefits	428,729
Travel and transportation	228,831
Equipment	15,229
Program supplies	409,559
Contractual	-
Other direct costs	297,918
Indirect costs	<u>664,713 (*)</u>
Total Costs Billed	<u>\$ 3,493,277</u>

(*) Indirect costs are reported based on the [REDACTED] NICRA as shown below:

Type	Date Issued	Effective Period		Indirect Cost Rate
		From	Through	
Provisional	08/18/2020	07/01/2019	Until Amended	23.50%

¹ These Notes to the Special Purpose Financial Statement are the responsibility of [REDACTED].



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

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Notes to Special Purpose Financial Statement¹

(6) Fund Balance

The fund balance presented on the SPFS represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect the revenues that have been earned exceed the costs incurred or charged to the agreement. An amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of amount of revenue earned may be made.

(7) Currency

All amounts presented are shown in U.S. dollars.

(8) Subrecipients

No subrecipients were procured under this project.

(9) Program Income

Program income has not been identified during our audit period under his award.

(10) Other

The COVID-19 pandemic has developed rapidly in 2020 and carried over into 2021. [REDACTED] [REDACTED] has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our staff (such as social distancing and working from home, where feasible) while ensuring continuation of operations that is essential to the attainment of project objectives. The impact on project performance and results has not been significant or material.

The U.S. has been ordered to withdraw all troops from Afghanistan by August 31, 2021. Given the security conditions in Afghanistan and reduced staffing and capability, USAID's ability to carry out its programs in Afghanistan has been compromised.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of [REDACTED].



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

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and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
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For the period September 1, 2019 through October 31, 2020

Notes to Special Purpose Financial Statement¹

(11) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the September 1, 2019 through October 31, 2020, period covered by the Statement. Management has performed their analysis through March 22, 2022.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of [REDACTED].

(Continued)

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Democracy,
Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster
Assistance to Support the Provision of Community Based Gender-based Violence
(GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities
in Afghanistan

For the period September 1, 2019 through October 31, 2020

**Notes to Questioned Costs Presented on the
Special Purpose Financial Statement²**

(A) Salary and Wages, and Fringe Benefits

[REDACTED] reported a total of \$1,448,298 for Salary and Wages, and a total of \$428,729 in related Fringe Benefits for the period of September 1, 2019 through October 31, 2020.

During our audit of these costs, we noted:

- Personnel positions presented on the pay support, such as a project employee listing and employment agreements, provided by [REDACTED] were not distinctly nor reasonably identifiable in the approved budget. This resulted in total ineligible costs of \$124,002, comprised of \$102,905 in salaries and \$21,097 in associated fringe benefits. See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- [REDACTED] paid employee salaries that were in excess of the approved budget for the respective position(s) for the period of September 2019 through October 2020. This resulted in total ineligible costs of \$17,831, comprised of \$16,460 in salaries and \$1,371 in associated fringe benefits. See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Local employees' salaries were erroneously overcharged. The employee's actual percentage calculated from their timesheets were less than the percentage they actually charged to the project. This resulted in total ineligible costs of \$1,340, comprised of \$1,238 in salaries and \$102 in associated fringe benefits. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- Local employees did not work 100% on the program, but the full amount of annual pension costs was charged to the program. This resulted in ineligible costs of \$2,432 in associated fringe benefits. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Travel and Transportation

[REDACTED] reported a total of \$228,831 for Travel and Transportation costs for the period of September 1, 2019 through October 31, 2020.

² The 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.

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Democracy,
Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster
Assistance to Support the Provision of Community Based Gender-based Violence
(GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities
in Afghanistan

For the period September 1, 2019 through October 31, 2020

**Notes to Questioned Costs Presented on the
Special Purpose Financial Statement²**

During our audit of these costs, we noted instances where travel costs not related to the program were erroneously charged. This resulted in ineligible costs of \$2,134. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report.

(C) Indirect Costs

[REDACTED] reported a total of \$664,713 for Indirect Costs for the period of September 1, 2019 through October 31, 2020. The indirect costs associated with questioned costs identified in **Notes A and B** above resulted in total ineligible indirect costs of \$34,720.

² The 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.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
[REDACTED]
[REDACTED]

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 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 [REDACTED] under Grant Agreement No. [REDACTED], Provision of Community Based Gender-based Violence (GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan, for the period of September 1, 2019 through October 31, 2020. We have issued our report thereon dated March 22, 2022 with a modified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for [REDACTED] for the period of September 1, 2019 through October 31, 2020, we obtained an understanding of [REDACTED] internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on [REDACTED] internal control. Accordingly, we do not express such an opinion.

Our consideration of [REDACTED] 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 have not been identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we did identify 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 prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the

accompanying *Schedule of Findings and Questioned Costs* as item **2022-01** to be a material weakness.

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 *Schedule of Findings and Questioned Costs* as item **2022-03** to be a deficiency and **2022-02** to be a significant deficiency.

■■■■ Response to Findings

■■■■ response to the findings identified in our audit is included verbatim in *Appendix A*. ■■■■ 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 ■■■■ 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 ■■■■, the United States Agency for International Development's Democracy, Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance, 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.

Conrad LLP

Lake Forest, California
March 22, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
[REDACTED]
[REDACTED]

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 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 [REDACTED] under Grant Agreement No. [REDACTED], Provision of Community Based Gender-based Violence (GBV) and Psychosocial Support Services for Crisis and Disaster Affected Communities in Afghanistan, for the period of September 1, 2019 through October 31, 2020. We have issued our report thereon dated March 22, 2022 with a modified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [REDACTED] Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Grant Agreement, 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**.

[REDACTED] Response to Findings

[REDACTED] response to the findings identified in our audit is included verbatim in *Appendix A*. [REDACTED] 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 compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of [REDACTED], the United States Agency for International Development's Democracy, Conflict, and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance, 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.

Conrad LLP

Lake Forest, California
March 22, 2022



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Democracy, Conflict,
and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Schedule of Findings and Questioned Costs

Finding 2022-01: Deviations from the original budget without approval from funding agency, resulting in ineligible costs charged to the Program

Nature of Finding: Non-Compliance; Internal Control – Material Weakness

Condition: During our testing of Salaries and Wages, we judgmentally selected two pay periods which covered the payroll for 15 out of 17 headquarters (HQ) and international staff and four pay periods which covered the payroll for 50 out of 264 national staff to determine if the costs incurred under the Program were supported, accurate, and properly approved. Our testing results determined that there were issues where either the position claimed was not approved in the budget or exceeded the number of budgeted positions, or the salary claimed exceeded the approved budget. Given the diversity of these issues, Conrad expanded testing to the entire population of employees claimed under the Program. Our expanded testing identified the following two issues:

- 1) We noted that several personnel positions identified in the project employee listing and/or employment agreements were not in the approved budget but were charged to the Program. In addition, we identified multiple instances in which the number of positions charged for certain positions exceeded the number of positions approved in the budget. Based on our inquiries with [REDACTED], revisions to the budget to include additional positions or an increase in the number of authorized positions were neither made nor approved. As such, this resulted in ineligible costs of \$102,905 as illustrated below:

Position	Type of Staff	Site	No. of positions budgeted	No. of positions charged	Questioned Costs
[REDACTED]	International	HQ	0	1	\$ 13,273
[REDACTED]	International	HQ	0	1	42,272
[REDACTED]	Local	[REDACTED]	16	18	3,003
[REDACTED]	Local	[REDACTED]	3	4	950
[REDACTED]	Local	[REDACTED]	18	21	2,226
[REDACTED]	Local	[REDACTED]	36	38	2,682
[REDACTED]	Local	[REDACTED]	0	1	3,122
[REDACTED]	Local	[REDACTED]	1	2	543
[REDACTED]	Local	[REDACTED]	1	3	2,678
[REDACTED]	Local	[REDACTED]	0	1	3,193
[REDACTED]	Local	[REDACTED]	36	39	2,440
[REDACTED]	Local	[REDACTED]	0	1	5,874
[REDACTED]	Local	[REDACTED]	0	1	1,973
[REDACTED]	Local	[REDACTED]	0	1	1,353
[REDACTED]	Local	[REDACTED]	0	1	2,607
[REDACTED]	Local	[REDACTED]	0	1	1,078

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

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Schedule of Findings and Questioned Costs
(Continued)

[REDACTED]	Local	[REDACTED]	0	1	4,859
[REDACTED]	Local	[REDACTED]	0	1	3,389
[REDACTED]	Local	[REDACTED]	1	2	5,390
Total			112	138	\$ 102,905

2) We noted that the following [REDACTED] employee salaries claimed were in excess of the approved budget for the respective position(s) for the period of September 2019 through October 2020. As such, this resulted in ineligible costs of \$16,460 as illustrated below.

Position	Type of Staff	Site	Actual Amount	Budget Amount	Variance
[REDACTED]	Local	[REDACTED]	\$ 5,625	\$ 5,500	\$ 125
[REDACTED]	Local	[REDACTED]	5,605	5,500	105
[REDACTED]	Local	[REDACTED]	5,605	5,500	105
[REDACTED]	Local	[REDACTED]	6,903	5,500	1,403
[REDACTED]	Local	[REDACTED]	5,625	5,500	125
[REDACTED]	Local	[REDACTED]	6,802	5,850	952
[REDACTED]	Local	[REDACTED]	6,620	5,850	770
[REDACTED]	Local	[REDACTED]	6,191	5,850	341
[REDACTED]	Local	[REDACTED]	7,868	7,200	668
[REDACTED]	Local	[REDACTED]	8,649	5,850	2,799
[REDACTED]	Local	[REDACTED]	6,757	5,850	907
[REDACTED]	Local	[REDACTED]	4,971	4,816	155
[REDACTED]	Local	[REDACTED]	9,685	1,680	8,005
Total			\$ 86,906	\$ 70,446	\$ 16,460

Criteria:

[REDACTED] **Field Employee Policy and Procedure Manual states the following:**

"5. Budget Revisions

Budget revisions relate to items such as: 1) requesting additional funding (cost-extension), 2) line-item variations beyond the current limit (budget realignment), and 3) major program and budget changes etc. All revisions must be thoroughly justified, reviewed and approved in a same manner as the original budget. Once the internal approval is obtained budget has to be approved in writing by the appropriate donor official..."

Section 1.4(b) of Attachment 1 to the Grant Agreement, states in part:

"(1) Reporting of Deviations from Budget Plan

The summary budget set forth in paragraph (a) above is based on the detailed budget that the Recipient submitted with its application for this Agreement. The Recipient's detailed budget (as

(Continued)



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

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Schedule of Findings and Questioned Costs
(Continued)

may be adjusted by USAID to correct any mathematical errors) constitutes the approved budget plan for this Agreement. The Recipient shall report deviations from the approved budget plan in accordance with 2 CFR 200.308(b).

*(2) Prior Approval of Certain Revisions to Budget Plan
In accordance with 2 CFR 200.308(b), the Recipient must request prior approval from the USAID Agreement Officer for the specific budget revisions described in 2 CFR 200.308(c) (1) (i) through (c) (1) (viii) for non-construction awards... ”*

2 CFR 200.303, Internal Controls, states in part:

“The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award...”

2 CFR 200.308, Revision of Budget and Program Plans, states in part:

“...(b) Recipients are required to report deviations from budget or project scope or objective, and request prior approvals from Federal awarding agencies for budget and program plan revisions, in accordance with this section.

(c) For non-construction Federal awards, recipients must request prior approvals from Federal awarding agencies for the following program or budget-related reasons:

...(4) The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with subpart E of this part as applicable....

(f) The Federal awarding agency may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for Federal awards in which the Federal share of the project exceeds the simplified acquisition threshold and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget as last approved by the Federal awarding agency. The Federal awarding agency cannot permit a transfer that would cause any Federal appropriation to be used for purposes other than those consistent with the appropriation...”

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.

(Continued)



Financial and Close-out Audit of Costs Incurred Under
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Schedule of Findings and Questioned Costs
(Continued)

- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...*
- (g) Be adequately documented..."*

2 CFR 200.404, Reasonable Costs, states in part:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- ...(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."*

Cause: [REDACTED] did not adhere to its own budget revision policy to justify, review, and obtain approval for changes made to staffing and salaries when it hired and billed for positions not described in the approved budget and exceeded the budget for positions described in the approved budget. This is because [REDACTED] management believed that such changes could be made without justification and approval given the scope and increased demands of the Program. [REDACTED] management stated that it is expected that personnel may be added to the Program when /as needed without a need to seek a budget realignment or approval per 2 CFR 200.308 as the total salary cost category was not exceeded by 10% of the total budget. Also, there were no other requirements for any new positions, exceeded positions, or exceeded salary threshold that will require approval.

Effect: The U.S. Government paid for costs that were not approved in the applicable program budget, and for costs that were not pre-authorized by the Government, which resulted in ineligible costs being claimed.

Questioned Costs: Ineligible costs identified totaled \$175,166, of which \$119,365 represents salaries, \$22,468 represents associated fringe benefits and \$33,333 in associated indirect costs.

Recommendation:

- 1) We recommend that [REDACTED] either provide USAID with support documentation demonstrating the allowability of the costs identified or return \$175,166 in ineligible costs.
- 2) We recommend that [REDACTED] instruct its management and staff to adhere to the internal budget revision policy and better familiarize itself with the applicable Grant Agreement requirements and CFR provisions.

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

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Schedule of Findings and Questioned Costs
(Continued)

Finding 2022-02: Unallowable salary and travel costs charged to the Program

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

Condition: During our testing to determine if salary, fringe benefit, and travel costs incurred under the Grant Agreement were adequately supported, accurate, properly approved, and allowable, we judgmentally selected a combined sample of 467 transactions valued at \$285,080 out of combined population of 7,134 transactions valued at \$2,105,858. Based on our testing, we noted the following:

- (1) Salaries and Wages, and Fringe Benefits – We judgmentally selected a combined sample of 438 transactions valued at \$213,218 out of a combined population of 6,544 valued at \$1,877,027. Based on our testing, we noted:
 - a. Eight (8) instances where the local employees' salaries were erroneously overcharged. The employee's actual level of effort as a percentage calculated per the sampled timesheets were less than what the percentage actually charged to the Program. This resulted in total ineligible costs of \$1,340, consisting of \$1,238 in salaries and \$102 in associated fringe benefits.
 - b. Three (3) instances where the local employees did not work 100% on the Program, but their entire annual pension costs were charged to the Program. This resulted in ineligible costs of \$2,432 in associated fringe benefits.
- (2) Travel and Transportation – We judgmentally selected a sample of 29 transactions valued at \$71,862 out of a population of 590 valued at \$228,831. Based on our testing, we noted three (3) instances where travel costs not related to the Program were erroneously charged. This resulted in questioned costs of \$2,134.

Criteria:

[REDACTED] **Field Finance Manual 2016, Chapter 4: Roles and Responsibilities, states in part:**

"5.2 [REDACTED]
[REDACTED] was set up in Dec 2016 as part of the HQ finance department. [REDACTED]
provides an additional level of assurance with regards to financial management and control of
funds. [REDACTED] reviews financial files for completeness, accuracy, quality, and
assesses compliance with [REDACTED] procedures and donors' procedures. The review includes, but is
not limited to, analysis of employee files, timesheets and payroll calculation. Through the Test of
Transactions, [REDACTED] verifies that employee contracts are kept current, retained on file and fully
executed/approved; that personnel compensation is aligned with employee contracts and that



Financial and Close-out Audit of Costs Incurred Under
Grant Agreement No. [REDACTED]

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and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
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For the period September 1, 2019 through October 31, 2020

Schedule of Findings and Questioned Costs
(Continued)

costs are properly allocated to relevant projects. [REDACTED] works directly with field offices to verify that internal controls are in place; identified weaknesses are reported to the management. The process ensures that any major risks are identified, analyzed and corrective actions are taken timely."

2 CFR 200.303, Internal Controls, states in part:

"The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."

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:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.*
- (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.*
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...*
- (g) Be adequately documented..."*

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. This standard is met if the cost:
(1) Is incurred specifically for the Federal award..."

2 CFR 200.405(d), Allocable costs, states in part:

"Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis..."

Cause: Based on Conrad's observation, [REDACTED] Finance Control Unit did not perform the necessary procedures and tests as outlined in the Finance Manual to ensure that costs were properly allocated to relevant projects and the accuracy of costs charged to the Program.



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Schedule of Findings and Questioned Costs
(Continued)

Effect: [REDACTED] lack of oversight to verify allocation and accuracy of Program costs allowability resulted in ineligible costs charged to the Grant Agreement.

Questioned Costs: Ineligible costs identified totaled \$7,293, consisting of \$1,238 in salaries, \$2,134 in transportation and travel costs, \$2,534 in associated fringe benefits and \$1,387 in associated indirect costs. Subsequent to the issuance of the draft report and prior the issuance of the final report, [REDACTED] applied a credit of \$7,293 on their March 2022 project drawdown.

Recommendation:

- (1) We recommend that [REDACTED] train and provide further instruction to its Finance Control Unit staff regarding proper implementation of transaction procedures and tests to ensure costs are accurate and properly allocated to the relevant project in accordance with the Finance Manual.

[REDACTED]

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Schedule of Findings and Questioned Costs
(Continued)

Finding 2020-03: [REDACTED] was unable to provide evidence of employee reference checks

Nature of Finding: Non-Compliance; Internal control – Deficiency

Condition: We tested 30 out of 264 local personnel files to determine if costs associated with these employees were allowable and adequately supported. Based on our testing, we noted that [REDACTED] did not provide sufficient documentation to demonstrate that employees met [REDACTED] employment requirements. [REDACTED] internal policy requires at least one reliable professional reference before the employment contract can be issued for a Support Staff employee. Furthermore, for any employee above the level of Support Staff, at least two professional references must be obtained.

- For six (6) Support Staff local employees tested, no reference checks were provided.
- For thirteen (13) local employees that are above the level of Support Staff rank, [REDACTED] did not provide reference checks for ten employees and only provided one reference check for three employees.

This resulted in no questioned costs as [REDACTED] provided all other adequate support such as payroll, timesheet, signed employee agreement, background check, etc. to allow us to determine the allowability of costs incurred.

Criteria:

[REDACTED] Afghanistan HR Manual states, in part:

"5.2 Hiring Procedure

(E) Reference and Background check

At least two professional references must be obtained for any employee above the level of Support Staff, with at least one of reference coming from the most recent employer. Support staff also requires reference checks...

No [REDACTED] employment contract can be issued unless and until at least one reliable professional reference is checked around the potential candidates."

[REDACTED] Field Finance Manual 2016, Chapter 3: Record Retention, states in part:

"1. Record Retention

Unless stricter requirements are imposed by donor rules and regulations, all financial and programmatic records, supporting documents, statistical records, and any other pertinent records of [REDACTED] will be retained for five years from the day it submits its final expenditure report...

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs
(Continued)

2.5. Scanning files/ Electronic format

Maintaining complete and readable records is a necessary part of financial accountability and transparency. All relevant records should be scanned on a daily basis and uploaded to online portal [REDACTED] no later than the 15th of the following month...

2 CFR 200.334, Retention requirements for records, states in part:

"Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report..."

2 CFR 200.336, Methods for collection, transmission and storage of information, states in part:

"The Federal awarding agency and the non-Federal entity should, whenever practicable, collect, transmit, and store Federal award-related information in open and machine readable formats rather than in closed formats or on paper in accordance with applicable legislative requirements..."

Cause: [REDACTED] staff did not always retain or convert hard copy documentation into an electronic format in accordance with [REDACTED] record retention policy. According to [REDACTED], physical paper reference checks were either archived in its storage warehouse in Afghanistan or likely no longer on file. [REDACTED] stated that reference checks were obtained at the appropriate time per their policies and procedures; however, due to the current situation in Afghanistan the appropriate personnel were unable to obtain the requested documentation.

Effect: Because [REDACTED] was unable to provide the requested reference checks, the completeness of reference checks actually obtained prior to the issuance of the employee contracts could not be verified. This internal control deficiency increases the risk that hired employees are not adequate to fill the employment position in which they are seeking and given.

Questioned Costs: [REDACTED] provided all other adequate support documentation such as payroll registers, timesheets, signed employee agreements, background checks, etc. As such, no costs were questioned.

Recommendation:

- (1) We recommend that [REDACTED] provide USAID/DCHA/OFDA with support evidencing that all required reference checks were obtained prior to the issuance of the employment contracts in question.
- (2) We recommend that [REDACTED] provide training to ensure relevant award records are both retained properly digitized within the required timeframe and compliance with 2 CFR 200.336 and their internal retention policies and procedures.

(Continued)

[REDACTED]

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Status of Prior Audit Findings

We requested prior audit reports from [REDACTED], SIGAR, and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to [REDACTED] activities. We identified one prior audit report conducted on behalf of USAID/OIG and SIGAR. Based on our review of this report, we identified two prior findings that we believe could have material effect on the SPFS and other financial data significant to the audit objectives. Our review procedures included a follow up discussion with [REDACTED] management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

Report: USAID Office of Inspector General Financial Audit of Costs Incurred report submitted on September 29, 2017 under multiple USAID Grant Numbers: [REDACTED] and Cooperative Agreement Numbers: [REDACTED]

Finding 2016-1: Payroll – [REDACTED] was unable to provide support for requested payroll expenses. As such, the auditor could not confirm that payroll costs were allowable in the following instances:

- Employee contracts for two employees were missing.
- Timesheets supporting hours worked for seven employees were missing.
- Supervisory approval on the timesheet for one employee was missing.
- Salary charged to a USAID cooperative agreement for one employee was more than the salary observed in their personnel file.

This resulted in questioned costs in the amount of \$9,487.

Status: We verified that [REDACTED] took adequate corrective actions through our review of [REDACTED] payroll and human resource policies and procedures. In addition, during our sample-based testing we did not identify any similar issues, and this finding was not repeated. However, we did identify issues related to pay rates in excess of the approved budget, personnel positions charged not appearing on the approved budget, and salaries charged in excess of the appropriate allocation percentage. See **Finding 2022-01** and **2022-02** of this audit report.

Finding 2016-2: Vendor Source Selection – [REDACTED] initiated a purchase request to procure pharmaceuticals. [REDACTED] biddings committee awarded the contract to OZAY based on “competitive price at the best delivery time.” A review of the bid documentation does not support OZAY’s bid as being more favorably competitive in relation to the other two vendors. In addition, OZAY completed delivery of the goods 64 days late. This resulted in questioned costs in the amount of \$248,939.

[REDACTED]

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Status of Prior Audit Findings
(Continued)

Status: We verified that [REDACTED] took adequate corrective actions through our review of [REDACTED] procurement policies and procedures. In addition, during our sample-based testing we did not identify any similar issues, and this finding was not repeated.

[REDACTED]

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[REDACTED] **Responses to Report and Audit Findings**

[REDACTED] has provided formal responses to the report opinion and audit findings identified in this report. These responses have been inserted verbatim as presented below:

Opinion on the Audit Report: Modified Opinion

We respectfully disagree with the modified opinion. [REDACTED] provided sufficient evidence to various aspects of the transactions, and the auditor found no material misstatements. The report has three findings:

- 2022-01 estimated questioned amount \$175,166
- 2022-02 estimated questioned amount \$7,293
- 2022-03 estimated questioned amount \$0

[REDACTED] does not accept the finding 2022-01 and considers it should be removed in its entirety. These costs are fully allowable, allocable, and reasonable. For finding 2022-02, [REDACTED] agrees, whereas finding 2022-03 doesn't have a material value. There is no basis for giving a modified opinion.

Finding 2022-01: Deviations from the original budget without approval from funding agency, resulting in ineligible costs charged to the Program

We respectfully disagree with the recommendation because prior approval is not required for revisions of personnel costs, including adding personnel not listed in the Original Budget or for variances between actual and budgeted costs. Consequently, there are no ineligible costs charged to the Program.

Auditors cite to 2 CFR200.308 as the basis for determining the ineligible costs and provide a partial quotation of that section of the regulation in the draft audit report. A full reading of section 308 shows that prior approval in non-construction budgets is in fact limited to eight specific reasons:

§ 200.308 Revision of budget and program plans.

(c)(1) For non-construction Federal awards, recipients must request prior approvals from Federal awarding agencies for one or more of the following program or budget-related reasons:

- (i) Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).*
- (ii) Change in a key person specified in the application or the Federal award.*
- (iii) The disengagement from the project for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.*

[REDACTED]

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(continued)

(iv) The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with Subpart E—Cost Principles of this part or 45 CFR part 75 Appendix IX, “Principles for Determining Costs Applicable to Research and Development under Awards and Contracts with Hospitals,” or 48 CFR part 31, “Contract Cost Principles and Procedures,” as applicable.

(v) The transfer of funds budgeted for participant support costs as defined in § 200.75 Participant support costs to other categories of expense.

(vi) Unless described in the application and funded in the approved Federal awards, the subawarding, transferring or contracting out of any work under a Federal award, including fixed amount subawards as described in § 200.332 Fixed amount subawards. This provision does not apply to the acquisition of supplies, material, equipment or general support services.

(vii) Changes in the approved cost-sharing or matching provided by the non-Federal entity.

(viii) The need arises for additional Federal funds to complete the project. ”

A plain reading of the above-cited regulation clearly shows that none of those programmatic or budgetary reasons applies in this instance. Moreover, the regulation states that USAID is not permitted to impose other prior approval requirements for specific items unless an exception has been approved by OMB. [200.308(d) No other prior approval requirements for specific items may be imposed unless an exception has been approved by OMB.] If USAID cannot impose additional requirements to the award unless approved, then surely a non-party to the agreement may not impose additional requirements. The conclusion drawn by the auditors appears to create brand new Federal policy, namely that any and all budgetary changes require prior approval (“The U.S. Government paid for costs that were not approved in the applicable project budget, and for costs that were not pre-authorized by the Government, which resulted in ineligible costs being claimed.) The regulations clearly state otherwise.

Furthermore, Cooperative agreement [REDACTED] permits transfers among direct cost categories without prior approval:

“Prior Approval Not Required for Transferring Funds Among Direct Cost Categories by More Than 10% of Total Estimated Amount.” As it is explicitly stated in the agreement that no prior approval is required for transferring funds among direct cost categories by more than 10% of the total estimated amount, [REDACTED] had no reason to request such approval.”

[REDACTED]

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(continued)

Asking for approval when approval is not required is unnecessarily burdensome on the implementing partner and on USAID. Personnel costs are allowable, allocable, reasonable, and do not require prior approval.

Below please find a detailed response to the criteria listed in the draft audit report:

1. [REDACTED] *International Field Employee Policy and Procedure Manual states the following: "5. Budget Revisions. Budget revisions relate to items such as: 1) requesting additional funding (cost-extension), 2) line-item variations beyond the current limit (budget realignment), and 3) major program and budget changes etc. All revisions must be thoroughly justified, reviewed and approved in a same manner as the original budget. Once the internal approval is obtained budget has to be approved in writing by the appropriate donor official..."*

This is not relevant to the finding. The above-quoted process from the Manual pertains to three specific circumstances; the personnel cost variations that are the subject of this finding fall into none of those circumstances.

Otherwise, the process described above was fully followed and respected when [REDACTED] addressed those specific budget revisions. In accordance with the above-quoted policy, [REDACTED] conducts an internal budget review for each project on a monthly basis. During this meeting, the project management team discusses plans and expenses, and then looks at the end result per each line item. If budget variations exceed the limit set by the donor and/or project agreement, the donor is informed about the change. However, in this particular project, USAID didn't put a limit on personnel category and therefore there was no need to submit a budget revision. In cases when a cost or no-cost extension is needed, [REDACTED] sends a prior approval request to the AOR. Staff responsible for the project implementation is familiar with donor regulations and specific project requirements, as indicated in the cooperative agreement.

2. *"The summary budget set forth in paragraph (a) above is based on the detailed budget that the Recipient submitted with its application for this Agreement. The Recipient's detailed budget (as may be adjusted by USAID to correct any mathematical errors) constitutes the approved budget plan for this Agreement. The Recipient shall report deviations from the approved budget plan in accordance with 2 CFR 200.308(b). (2) Prior Approval of Certain Revisions to Budget Plan. In accordance with 2 CFR 200.308(b), the Recipient must request prior approval from the USAID Agreement Officer for*

[REDACTED]

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[REDACTED] **Responses to Report and Audit Findings**

(continued)

the specific budget revisions described in 2 CFR 200.308(c) (1) (i) through (c) (1) (viii) for non-construction awards and 2 CFR 200.30B(g) (1) through (5) for construction awards...

2CFR200.308 (Revision of budget and program plans) determines the areas that require donor approval. There is no requirement to obtain prior approval before adding a new staff member to a project or to exceed the amount originally budgeted for personnel. As long as expenses remain within the budget, and the cost is reasonable, allocable and allowable, changes on personnel don't require prior approval.

2 CFR 200, which establishes the government-wide requirements for administration of assistance instruments with nonprofit organizations, provides a great deal of budget flexibility for recipients.

Please see attached USAID General Notice which states: "Salary Approvals - The policy that requires special approval for contractors' salaries above ES-6 (previously FS-1) does not apply to assistance instruments. While it has occasionally been included in some grants and cooperative agreements, this will no longer be permitted Grant Officers will continue to review salaries for reasonableness when negotiating grants and cooperative agreements."

3. *2 CFR 200.303, Internal Controls, states in part: "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."*

This is not relevant to the finding. [REDACTED] internal controls are adequate or meet the 2CFR200.303 expectations.

[REDACTED] maintains strong and effective internal controls that provide reasonable assurance that Federal award is managed in compliance with applicable regulations as well as terms and conditions of the award. On a monthly basis, for each project, project management compares the original budget with actual and estimated costs through a Pipeline report. During the pipeline meeting, the management reviews estimated expenses for upcoming months, ensures that the budget doesn't get overspent and that project implementation is on target. [REDACTED] takes pride on its strong internal controls and continuous low-risk auditee status.

[REDACTED]

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[REDACTED] **Responses to Report and Audit Findings**

(continued)

4. *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..."*

This is not relevant to the finding. Only allowable costs were charged to the project. All costs incurred under this project confirm to limitations or exclusions set forth in 2CFR200 cost principles.

5. *2 CFR 200: "(e) The Federal awarding agency may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for Federal awards in which the Federal share of the project exceeds the Simplified Acquisition Threshold and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget as last approved by the Federal awarding agency. The Federal awarding agency cannot permit a transfer that would cause any Federal appropriation to be used for purposes other than those consistent with the appropriation."*

As stated above, the Federal awarding agency MAY restrict the transfer of funds among direct costs. However, the Federal awarding agency didn't restrict such transfer and didn't impose any special conditions on [REDACTED]. Both cost principles and budget flexibility rules were respected and followed.

6. *2 CFR 200.404, Reasonable Costs states in part: "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:... (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."*

This is not relevant to the finding. [REDACTED] did not deviate from its internal policies and practices in implementation of the project.

[REDACTED] staff is aware that only reasonable costs can be charged to the project, and that internal policies and practices must be followed. In some cases, there was a staff turnover. For example, in April '19, three hygiene promoters left, and other hygiene promoters were hired in their place. This makes it look like overall there was more hygiene promoters than what was initially budgeted, but the number of promoters per month remains the same. In another case, the security situation

[REDACTED]

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[REDACTED] **Responses to Report and Audit Findings**

(continued)

deteriorated to such an extent that we hired three more security guards than were originally budgeted. This was prudent under the circumstances. It's important to note that overall, the budget was not exceeded. While personnel costs increased, there were savings on other categories of costs.

Attachments:

1. Pages from the Cooperative Agreement No. [REDACTED] – as per the agreement, Prior Approval Not Required for Transferring Funds Among Direct Cost Categories by More Than 10% of Total Estimated Amount.
2. Email from USAID/BHA – The email confirms that no prior approval is required.
3. USAID General Notice – As noted in this document, since 1994 salary approvals do not apply to assistance instruments, and percentage limitations are not appropriate for assistance agreements.

Finding 2022-02: Unallowable salary and travel costs charged to the Program

As explained at the exit meeting, we agree with the finding and [REDACTED] will deduct the cost. In this category of costs, the auditor tested 467 transactions in value of \$2,105,858. The questioned cost has a value of \$7,293 which represents 2.6% of the sample.

As additional level of assurance, the [REDACTED] conducts a review on a sample basis ("through the test of transactions", as you have noted in the Manual). Minor deviations can happen due to a human error and such errors are always corrected. Additional training and strengthening of procedures will be implemented within the country team, while the [REDACTED] will add another layer of testing for Afghanistan.

[REDACTED]

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[REDACTED] **Responses to Report and Audit Findings**

(continued)

Finding 2020-03: [REDACTED] was unable to provide evidence of employee reference checks

We kindly ask you to remove this finding from the report.

One/two reference checks are required for new hires in accordance with the National Staff Manual. However, the Manual doesn't state that reference checks must be saved for an indefinite amount of time. The auditor was asking for documents predating the project (e.g., 17 out of 30 selected staff members were hired between 2003. and 2015., while the project started in 2019.).

According to [REDACTED] record retention procedure, some records were archived. Due to the security situation during the audit (Oct-Nov 2021), the archive wasn't fully accessible especially to our female staff members. It's worth to note that the audit was conducted right after the fall of the Islamic Republic of Afghanistan. Some of the local staff members left country while the rest of the staff worked from home or had limited access to offices. It took several weeks for humanitarian work in Afghanistan to restore and continue. There were several security incidents, power outages were constant, and despite these obstacles, all financial documentation was provided in time and complete. [REDACTED] provided the evidence to show that we have a system in place and that reference checks are obtained before the employment. Nevertheless, additional training will be provided to ensure records are retained and, when possible, properly digitized.

[REDACTED]

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Auditor's Rebuttal to [REDACTED] Responses to Report and Audit Findings

Auditor's rebuttal to [REDACTED] responses received related to the report opinion and audit findings identified in this report are presented below:

(1) Opinion on the Audit Report: Modified Opinion

[REDACTED] does not concur with the Modified Opinion as [REDACTED] believes that there is no basis for issuing such an opinion as it has provided sufficient evidence to various aspects of the questioned transactions, and that Conrad did not find any material misstatements. [REDACTED] does not accept Finding No. 2022-01 nor Finding No. 2022-03; however, does accept Finding No. 2022-02.

Auditor Rebuttal: The Modified Opinion is based on the materiality of total questioned costs identified under the total cost incurred. Based on our testing, the total questioned costs identified exceeded the materiality threshold of total incurred costs, therefore, the opinion will be a Modified Opinion and remains unchanged.

- (2) Finding 2022-01:** [REDACTED] does not concur with the budget deviation issues identified in this report and maintains that funding agency approval is not necessary for such deviations and that they conformed with internal policies and authoritative requirements. [REDACTED] did not concur the criteria cited in the finding and believe none of them are relevant to the finding. As such, it is their stance that there were no ineligible costs charged to the Program and requests that the finding be removed from the report.

Auditor Rebuttal: As stated in the finding, [REDACTED] claimed personnel costs that had exceeded the explicitly approved budget rates and also claimed costs for certain personnel positions that were not in the approved budget or exceeded the number of budgeted positions resulting in unallowable costs charged to the Program. As cited in the Criteria section of the finding, budget revisions and/or deviations should be in conformity with [REDACTED] policies and procedures and the CFR requirements, where applicable. Below presents a rebuttal to the individual citations noted by [REDACTED] in their response to this finding:

- a. [REDACTED] believed its internal policy for budget revision is not relevant to the finding as none of those instances applied to the finding - Conrad reviewed its budget policy and it clearly stated "*line item variations beyond the current limit...*" are to be thoroughly justified, reviewed, and approved in the same manner as the original budget, and that once internal approval is received then donor approval is required which is applicable to the finding condition.

[REDACTED]

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Auditor's Rebuttal to [REDACTED] Responses to Report and Audit Findings

- b. [REDACTED] believed 2 CFR 200.308, 2 CFR 200.403, 2 CFR 200.404 are not relevant to the finding as none of the requirements explicitly states budget realignment required approval - As quoted in the report, under 2 CFR 200.308 (c)(4), it references Subpart E, which includes 2 CFR 200.403 (Factors Affecting Allowability of Costs) and 2 CFR 200.404 (Reasonable Costs). These sections require that the costs "*Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items*", "*Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity*", and not "*significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost*". All these criteria support the condition of the finding.
- c. [REDACTED] believed 2 CFR 200.303 (Internal Controls) is not relevant to the finding as they have an adequate internal control system in place - The deviations cited in the finding do not follow the policies and procedures established by [REDACTED] and the CFR and the magnitude of the finding resulted in a material weakness identified in [REDACTED] internal control environment.
- d. [REDACTED] quoted 2 CFR 200 (e) and believed all the budget deviations fell under this requirement where they do not need approval - This specific finding is not in direct correlation with whether or not funds transferred among direct cost categories exceeded 10% of the total estimated amount, rather the finding addresses the allowability of the costs to conform to any limitations or exclusions set forth in the regulations, policies, or award.

As such, our finding, classification of finding, and recommendation remain unchanged.

- (3) **Finding 2022-02:** [REDACTED] concurred with the ineligible cost finding of \$7,293 and indicated that these costs will be credited back to the funding agency. Furthermore, [REDACTED] stated that additional training and strengthening of procedures will be implemented within the country team, while the [REDACTED] will add another layer of testing for Afghanistan.

Auditor Rebuttal: No rebuttal is deemed necessary as [REDACTED] concurred with the finding and recommendation.

[REDACTED]

Financial and Close-out Audit of Costs Incurred Under
 Grant Agreement No. [REDACTED]
 Awarded by the United States Agency for International Development’s Democracy, Conflict,
 and Humanitarian Assistance Bureau and Office of U.S. Foreign Disaster Assistance to
 Support the Provision of Community Based Gender-based Violence (GBV) and Psychosocial
 Support Services for Crisis and Disaster Affected Communities in Afghanistan

For the period September 1, 2019 through October 31, 2020

Auditor’s Rebuttal to [REDACTED] Responses to Report and Audit Findings

- (4) **Finding 2022-03:** [REDACTED] does not concur with the identified issue regarding the inability to provide evidence of employee reference checks as it is their stance that the evidence that was provided showed that there is a system in place and that reference checks were obtained prior to employment. In addition, [REDACTED] stated that some checks were said to be completed prior to the project start date and that its internal policies do not state that such checks must be saved for an indefinite amount of time. Furthermore, [REDACTED] stated that some records were archived pursuant to its record retention policy; however, due to the security situation in Afghanistan the archive was not fully accessible to personnel and that other constraints existed following the fall of the Islamic Republic of Afghanistan. As such, [REDACTED] requests that the finding be removed from the report. However, [REDACTED] stated that additional training will be provided to ensure records are retained and properly digitized, when possible.

Auditor Rebuttal: As stated in the finding, we noted that [REDACTED] did not provide sufficient reference check documentation for nineteen (19) out of the thirty (30) employees sampled to demonstrate that these employees met [REDACTED] employment requirements. [REDACTED] internal policy requires at least one reliable professional reference before the employment contract can be issued for a Support Staff employee and at least two professional references must be obtained for any employee above the level of Support Staff.

Based on our review of the personnel support documentation provided, we noted that ten (10) out of the nineteen (19) employees identified in the finding had an employment hire date of March 7, 2017 or later [REDACTED] record retention policy states that relevant records be scanned on a daily basis and uploaded to their Cloud Sharefile no later than the 15th day of the following month, and that project support documents, and other pertinent records be retained for a period of five years from the day the final report is submitted to the donor. [REDACTED] submitted the Project Final Report to USAID on December 18, 2020. As such, a substantial amount of the requested information should have been readily available and [REDACTED] inability to provide the requested information demonstrates an internal control deficiency and systemic non-compliance as it relates to record retention.

As such, our finding, classification of finding, and recommendation remain unchanged.

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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SIGAR's Mission

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