

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 22-40 Financial Audit

USAID's Goldozi Project: Audit of Costs Incurred by FHI 360

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



SEPTEMBER
2022

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 5, 2018, the U.S. Agency for International Development (USAID) Mission to Afghanistan awarded a 4-year, \$9,718,763 cooperative agreement to FHI 360 in support of USAID's Goldozi Project. The purpose of the project was to help Afghan women generate revenue and sustainable jobs by increasing the commercial potential of embroidered products. USAID modified the agreement five times; the modifications did not affect the total award amount, but the period of performance end date was extended to January 31, 2022.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$1,950,949 in costs charged to the contract from October 1, 2020, through September 30, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in FHI 360's internal controls related to the award; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether FHI 360 has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of FHI 360's Special Purpose Financial Statement (SPFS). See Castro's report for the precise audit objectives.

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

September 2022

USAID's Goldozi Project: Audit of Costs Incurred by FHI 360

SIGAR 22-40-FA

WHAT SIGAR FOUND

Castro did not find any material weaknesses or significant deficiencies in FHI 360's internal controls, or any instances of noncompliance with the terms and conditions of the award. Accordingly, the auditors did not identify any questioned costs.

Castro identified three prior audit reports that were relevant to FHI 360's agreement. The reports had 13 findings that could have a material effect on the SPFS. Castro performed follow-up procedures and concluded FHI 360 took adequate corrective action on all of the findings.

Castro issued an unmodified opinion on FHI 360's SPFS, noting it presents fairly, in all material respects, revenue earned and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, Castro did not report any findings. Therefore, SIGAR is not making any recommendations.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 15, 2022

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

Mr. Sean Callahan
USAID Mission Director for Afghanistan

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by FHI 360 under a U.S. Agency for International Development (USAID) Mission to Afghanistan cooperative agreement in support of USAID's Goldozi Project.¹ The purpose of the project was to help Afghan women generate revenue and sustainable jobs by increasing the commercial potential of embroidered products. Castro reviewed \$1,950,949 in costs charged to the contract from October 1, 2020, through September 30, 2021. Our contract with Castro 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, Castro did not report any findings. Therefore, SIGAR is not making any recommendations.

Castro discusses the results of the audit in detail in the attached report. In connection with our contract, we reviewed Castro's report and related documentation. We also inquired about Castro's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FHI 360's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Castro is responsible for the attached auditor's report, dated June 8, 2022, and the conclusions expressed therein. However, our review disclosed no instances where Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-224)

¹ The cooperative agreement number is 72030618CA00006.



FHI 360
Financial Audit of Costs Incurred
For Cooperative Agreement No. 72030618CA00006
For the period of October 1, 2020 through September 30, 2021
(With Independent Auditor's Report Theron)

June 8, 2022

FHI 360
Financial Audit of Costs Incurred
Cooperative Agreement No. 72030618CA00006
For the Period of October 1, 2020 through September 30, 2021

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Transmittal Letter

June 8, 2022

To the Board of Directors and Management of FHI 360
359 Blackwell Street, Suite 200
Durham, NC 27701

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during our audit of the Special Purpose Financial Statement (the Statement) applicable to FHI 360's Cooperative Agreement No. 72030618CA00006 with the United States Agency for International Development (USAID), funding the Goldozi Project for the period of October 1, 2020 through September 30, 2021.

Within the pages that follow we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Statement, our report on internal control, and our report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our reports, we considered comments, feedback, and interpretations of FHI 360, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), provided both in writing and orally throughout the audit planning and fieldwork phases. There were no findings or questioned costs identified as a result of our audit.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of FHI 360's cooperative agreement.

Sincerely,



Thomas Castro, CPA, Partner
Castro & Company, LLC

FHI 360
Financial Audit of Costs Incurred
Cooperative Agreement No. 72030618CA00006
For the Period of October 1, 2020 through September 30, 2021

Summary

Background

On April 5, 2018, the United States Agency for International Development (USAID) awarded a \$9,718,763 Cooperative Agreement (Cooperative Agreement No. 72030618CA00006) to FHI 360¹ in support of the Goldozi Project. FHI 360 is a nonprofit human development organization that manages projects relating to family planning and reproductive health. FHI 360 is located in North Carolina and operates in more than 70 countries and all U.S. states and territories. The purpose of the Goldozi Project was to help Afghan women generate revenue and sustainable jobs by increasing the commercial potential of embroidered products. The project worked to create a class of equipped agents with skills and access to market insights; connect embroiderers and others along the value chain, from input suppliers to retail and export markets; and build and promote a brand of authentically and ethically produced product lines. The period of performance of this award was from April 5, 2018 through April 4, 2022. The cooperative agreement has been modified five times. The total award amount did not change, but the period of performance end date was changed to January 31, 2022 to reflect the current situation in Afghanistan.

The audit's scope included activity within the period of October 1, 2020 through September 30, 2021. Within the period under audit, FHI 360 reported \$1,950,949 in total revenue and \$1,950,949 in costs incurred under the cooperative agreement.

Work Performed

Castro & Company, LLC (Castro) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of FHI 360's Special Purpose Financial Statement (the Statement) for costs incurred under Cooperative Agreement No. 72030618CA00006 for the period of October 1, 2020 through September 30, 2021.

Objectives Defined by SIGAR

The following audit objectives were defined by SIGAR within the Statement of Work (SOW) for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

Audit Objective 1 – Internal Controls

Evaluate and obtain a sufficient understanding of FHI 360's internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 2 – Special Purpose Financial Statement

Express an opinion on whether the Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government,

¹ FHI 360 is the registered trade name of Family Health International.

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and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 3 – Compliance

Perform tests to determine whether FHI 360 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.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether FHI 360 has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Statement or other financial data significant to the audit objectives.

Scope

The scope of our work included performing a financial audit of costs incurred of FHI 360's Cooperative Agreement No. 72030618CA00006 for the period of October 1, 2020 through September 30, 2021. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Statement. The audit also included an evaluation of the presentation, content, and underlying records of the Statement. Further, the audit included reviewing the financial records that support the Statement to determine if there were material misstatements and if the Statement was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Administrative oversight, controls, and fraud risk assessment;
- Budgetary Compliance;
- Methodology for allocation of Indirect Cost Rates;
- Disbursements (payroll and non-payroll);
- Procurement;
- Inventory Management;
- Reporting; and
- Compliance

Our audit was performed in accordance with United States Generally Accepted Government Auditing Standards (GAGAS or the “Yellow Book”) issued by the Comptroller General of the U.S. Government Accountability Office (GAO) (2018 Revision).

Methodology

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

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For the Period of October 1, 2020 through September 30, 2021

Entrance Conference

An entrance conference was held via conference call on October 19, 2021. Participants included representatives from Castro, FHI 360, SIGAR, and USAID. 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:

1. Obtained an understanding of FHI 360;
2. Reviewed the cooperative agreement and modifications;
3. Reviewed specific USAID regulations that are applicable to the cooperative agreement;
4. Performed a financial reconciliation; and
5. Selected samples based on our sampling techniques as outlined in our approved Audit Plan.

Audit Objective 1 – Internal Controls

Castro obtained and reviewed FHI 360's policies and procedures to gain an understanding of the system of internal control established by FHI 360 during the period of performance. Additionally, Castro conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Castro confirmed internal controls identified by FHI 360 and performed testing over certain key controls to understand if they were implemented as designed.

Audit Objective 2 – Special Purpose Financial Statement

Transactions were selected from the general ledger detail supporting the Statement and were tested to determine if the transactions were recorded accurately and consistent with the agreement terms and conditions; were incurred within the period covered by the Statement; were appropriately allocated to the agreement; and were adequately supported.

Audit Objective 3 – Compliance

Castro reviewed the cooperative agreement issued by USAID to identify criteria against which to test the Statement. Using a combination of random and judgmental sampling techniques, Castro selected transactions, vouchers for payment submitted to USAID, procurements, government property, and reports for testing. Supporting documentation was provided by FHI 360 and evaluated to assess FHI 360's compliance. Testing of indirect costs was limited to determining

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whether indirect costs were calculated and charged to the U.S. Government in accordance with the Negotiated Indirect Cost Rate Agreement issued by USAID.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Castro inquired of FHI 360, SIGAR, and USAID representatives regarding prior audits, reviews, or assessments that were pertinent to the audit scope. Castro also conducted an independent search of publicly available information to identify audit and review reports. As a result, we identified three prior reports. In each instance, Castro reviewed prior audit reports to ascertain whether findings may be direct and material to the audit objectives. In instances where findings were determined to be potentially material to the audit objectives, Castro reviewed the prior audit reports to determine whether corrective action from any of the prior findings and recommendations was denoted as unresolved, inadequate, or otherwise incomplete such that additional follow-up is necessary. See **Schedule I: Summary Schedule of Prior Audit, Review, and Assessment of Findings**.

Exit Conference

An exit conference was held on May 9, 2022 via a conference call. Participants included representatives from Castro, FHI 360, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Castro issued an unmodified opinion on the Statement, noting the Statement presents fairly, in all material respects, revenues earned, costs incurred, and balance for the period audited. There were no findings or questioned costs identified as a result of the audit.

As part of obtaining reasonable assurance about whether the Statement is free from material misstatement, we considered FHI 360's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed no internal control weaknesses required to be reported under *Government Auditing Standards*. See Independent Auditor's Report on Internal Control on page 12.

As part of obtaining reasonable assurance about whether the Statement is free from material misstatement, we performed tests of its compliance with certain provisions of the agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the Statement amounts. The results of our tests disclosed no instances of noncompliance related to this audit. See independent Auditor's Report on Compliance on page 14.

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

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Castro also requested copies of prior audits, reviews, and evaluations pertinent to FHI 360's financial performance under this cooperative agreement. The three prior audits referenced above contained audit findings and recommendations that were direct and material to the award. From those three reports, Castro identified 13 findings that were subject to review. Castro conducted procedures to determine whether adequate corrective action had been taken on the 13 findings. Castro concluded that FHI 360 had taken adequate corrective action on all the prior year findings as we did not note similar issues in our current audit. See **Schedule I: Summary Schedule of Prior Audit, Review, and Assessment of Findings**.

Summary of Management Comments

Written management responses were not obtained because no reportable findings were identified during the course of the audit.

Independent Auditor's Report on the Special Purpose Financial Statement

To the Board of Directors and Management of FHI 360
359 Blackwell Street, Suite 200
Durham, NC 27701

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 Special Purpose Financial Statement (the Statement) of FHI 360, and the related notes to the Statement, with respect to the Goldozi Project funded by the United States Agency for International Development (USAID) Cooperative Agreement No. 72030618CA00006 for the period of October 1, 2020 through September 30, 2021.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and terms and conditions of Cooperative Agreement No. 72030618CA00006. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity's 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 Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement referred to above pertaining to Cooperative Agreement No. 72030618CA00006 presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the basis of presentation and accounting described in Notes 1, 2, 3, and 4.

Basis of Presentation and Accounting

We draw attention to Notes 1, 2, 3, and 4 to the Statement, which describe the basis of presentation and accounting. The Statement presents those amounts as permitted under the terms of the USAID Cooperative Agreement No. 72030618CA00006, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the agreement referred to above. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 9, 2022, on our consideration of FHI 360's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, awards, 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 FHI 360's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of FHI 360, USAID, and SIGAR. 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.

Castro & Company, LLC

Alexandria, VA
May 9, 2022

FHI 360
Financial Audit of Costs Incurred
Cooperative Agreement No. 72030618CA00006
For the Period of October 1, 2020 through September 30, 2021

Special Purpose Financial Statement²

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
<i>Revenues</i>						
USAID Obligation	9,718,763	1,950,949	-	-	-	
Program Income	-	-	-	-	-	
Total Revenue	\$ 9,718,763	\$ 1,950,949	\$ -	\$ -	\$ -	2,3
<i>Costs Incurred</i>						
Total Direct Costs	7,325,131	1,405,792	-	-	-	3
Security Costs	143,667	127,266	-	-	-	
Total Indirect Costs	2,249,965	417,891	-	-	-	
Total Costs Incurred	\$ 9,718,763	\$ 1,950,949	\$ -	\$ -	\$ -	
Outstanding Balance	\$ -	\$ -				4

² The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

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Notes to the Special Purpose Financial Statement

Note 1. Summary of Significant Accounting Policies

Basis of Preparation of the Special Purpose Financial Statement

The accompanying Special Purpose Financial Statement (the Statement) includes revenues and costs incurred under Cooperative Agreement No. 72030618CA00006 for the USAID Afghanistan Goldozi Project for the period October 1, 2020 through September 30, 2021. Because the Statement presents only a selected portion of the operations of FHI 360, it is not intended to and does not present the financial position, Balance Sheet, Statement of Net Income, changes in net assets, or cash flows of FHI 360. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the Cooperative Agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Basis of Preparation of the Budget

The budget for the project presented on the Statement has been prepared in accordance with the budget approved by USAID. This budget is expressed in U.S. dollars. The total budget for the Goldozi Project under Cooperative Agreement No. 72030618CA00006 is \$9,718,763.

Basis of Accounting

FHI 360 uses the accrual basis of accounting whereby revenues are recorded when earned and expenditures (expenses) are recorded when the goods are received or services are performed, even though the receipt of the revenue or payment of the expenditure may take place, in whole or in part, in another accounting period. Revenues and expenditures on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 2 Code of Federal Regulations (CFR) Part 200 and Cost Accounting Standards (CAS).

Foreign Currency Conversion Method

To convert local currency transactions into U.S. dollars, FHI 360 utilizes daily Oanda foreign exchange rates incorporated into its accounting system. Oanda exchange rates are widely used by corporations, tax authorities, auditing firms, and financial institutions. FHI 360 also adjusts the U.S. dollar equivalents of field-office local currency transactions based upon the actual exchange rates received from FHI 360's local banks.

The functional currency in Afghanistan is the Afghani (AFN). Presentation currency is the U.S. dollar. Currency translations have been done on the following basis.

- Revenues – recorded in U.S. dollars
- U.S. Expenditures – recorded in U.S. dollars
- Afghanistan Expenditures – recorded in AFN

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Note 2. Revenues

Revenues on the Statement represent the amount of funds to which FHI 360 is entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement during the project’s period of performance.

Note 3. Revenue Recognition

Revenue is recorded upon incurring an expense, or delivery of the service, assuming all other revenue recognition criteria have been met.

Costs Incurred	Budget	Actual Costs
Direct Costs (a)	\$ 7,325,131	\$ 1,405,792
Security (b)	\$ 143,667	\$ 127,266
Indirect Costs (c)	\$ 2,249,965	\$ 417,891
Total Costs Incurred	\$ 9,718,763	\$ 1,950,949

a) Direct Cost

These are local and U.S.-based staff’s salary costs as well as any purchases. Also, the compensated personal absence (CPA), which is included in the budget, is applied at the rate of the direct proportional salary of home office and US/Third Country National (TCN) expatriate staff.

b) Security Costs

This is the cost of on-the-ground security management and oversight, security information collection and analysis, staff safety training, robust journey management protocols, ongoing monitoring of security risks, and identifying mitigation measures to respond to the dynamic operating environment.

c) Indirect Costs

FHI 360’s fringe benefits, General and Administrative (G&A), and Subcontract/Subrecipient Management (SSM) are detailed in the Negotiated Indirect Cost Rate Agreement (NICRA).

- **Fringe Benefits**

FHI 360’s fringe benefits are detailed in the NICRA. The current provisional fringe rate covers Disability Insurance, Education Benefits Expenses, Employee Awards, Employment Taxes, Life Insurance, Medical Insurance, Pension Contribution, Severance Pay, Unemployment Insurance, and Worker’s Compensation.

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Note 4. Outstanding Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect those revenues have been earned that exceed the costs incurred or charged to the Cooperative Agreement.

Note 5. Reconciliation to Invoiced Amounts

FHI 360 reports its costs to USAID Afghanistan via the quarterly SF-425. The Statement provides the expenses incurred during the audit period only. This amount is not reflected in the SF-425 because the SF-425 reports cumulative spending from the start of the cooperative agreement period.

Note 6. Project Status

The FHI 360 cooperative agreement was active as of the audit period through September 30, 2021. The cooperative agreement was terminated effective January 31, 2022.

Note 7. Cost Sharing

No cost sharing was required under the Goldozi Project.

Note 8. Subsequent Events

FHI 360 has performed an analysis of the activities and transactions subsequent to October 1, 2020 through September 30, 2021 covered by the Statement. Management has performed their analysis through May 9, 2022, the date through which the Statement was available to be issued. Due to the external event in Afghanistan during August 2021, in which the Taliban replaced the former government, the closure of the USAID Mission in Kabul, FHI 360's ability to implement the project activities during this time was materially impacted. As a result, the cooperative agreement's period of performance end date was changed from April 4, 2022 to January 31, 2022. FHI 360 does not believe this event impacts the amounts and disclosures in the Statement for the audit period of October 1, 2020 through September 30, 2021.

Independent Auditor's Report on Internal Control

To the Board of Directors and Management of FHI 360
359 Blackwell Street, Suite 200
Durham, NC 27701

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 (the 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 FHI 360 under United States Agency for International Development (USAID) Cooperative Agreement No. 72030618CA00006, Goldozi Project, for the period of October 1, 2020 through September 30, 2021. We have issued our report thereon dated May 9, 2022 with an unmodified opinion.

Internal Control over Financial Reporting

FHI 360's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Notes 1, 2, 3, and 4 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement, we considered FHI 360's's internal control over financial reporting (internal control) as a basis for designing audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of FHI 360's internal control. Accordingly, we do not express an opinion on the effectiveness of FHI 360's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a

combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the FHI 360 Statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of FHI 360, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction. 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.

Castro & Company, LLC

Alexandria, VA
May 9, 2022

Independent Auditor's Report on Compliance

To the Board of Directors and Management of FHI 360
359 Blackwell Street, Suite 200
Durham, NC 27701

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 (the 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 FHI 360 under United States Agency for International Development (USAID) Cooperative Agreement No. 72030618CA00006, Goldozi Project, for the period of October 1, 2020 through September 30, 2021. We have issued our report thereon dated May 9, 2022 with an unmodified opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of FHI 360.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FHI 360's Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the cooperative agreement, noncompliance with which could have a direct and material effect on the determination of the 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 FHI 360, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction. 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.

Castro & Company, LLC

Alexandria, VA

May 9, 2022

FHI 360
Financial Audit of Costs Incurred
Cooperative Agreement No. 72030618CA00006
For the Period of October 1, 2020 through September 30, 2021

Schedule I – Summary Schedule of Prior Audit, Review, and Assessment of Findings

Castro reviewed three prior audits, reviews, or assessment reports. These reports contained findings and recommendations. We assessed the findings to ascertain whether the matters reported in the findings were direct and material to the Special Purpose Financial Statement (the Statement) or other financial information significant to the audit objectives. In addition, we reviewed the auditors' comments regarding the status of prior audit findings.

The reports reviewed by Castro are listed below:

1. SIGAR Audit No. 19-30 USAID's Afghanistan University Support and Workforce Development Program: Audit of Costs Incurred.
2. SIGAR Audit No. 20-12 USAID's Initiative for Hygiene, Sanitation, and Nutrition in Afghanistan: Audit of Costs Incurred by FHI 360.
3. Financial and Closeout Audit of Costs Incurred of the USAID Resources Managed by FHI 360 under USAID's Goldozi Project, Cooperative Agreement No. 72030618CA00006, for the period October 1, 2019 to September 30, 2020 (Financial) and Costs Incurred of the USAID Resources Managed by FHI 360 under USAID's Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) Program, Contract No. AID-306-C-16-00007, for the Period October 1, 2019 to September 11, 2020 (Closeout) Performed by CliftonLarsonAllen, LLP.

Report: SIGAR Financial Audit No. 19-30 dated May 4, 2019 of costs incurred under Cooperative Agreement AID-306-A-13-00009-00 for the period of October 1, 2015 through December 31, 2017

Finding 1: Although FHI 360 performed subrecipient monitoring activities, their procedures did not adequately ensure certain costs were allowable and allocable to the program. FHI 360's subrecipient monitoring procedures included reviews of annual audit reports, analysis of budget to actual activity tracking, and a detailed review of personnel services costs (e.g., salaries and fringe benefits). However, FHI 360's review procedures did not include a detailed review of non-personnel costs (e.g., consulting services, fuel, and supplies), to determine whether or not these costs were allowable and allocable to the program.

Status: Castro obtained an understanding of FHI 360's subrecipient monitoring process and assessed it for reasonableness. In addition, Castro conducted compliance procedures pertaining to subrecipient expenditures to determine whether the documentation provided is adequate to support the allowability and allocability of subrecipient transactions. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

Finding 2: FHI 360 was unable to demonstrate that it had conducted required cost-price analyses to establish the reasonableness of the costs at the time of one procurement. FHI 360's documentation to support the reasonableness of the costs was limited to an email stating that only one firm could provide the TOEFL test and a screen capture of the pricing page from vendor. The

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email did not demonstrate that a cost-price analysis was performed at the time of procurement, as required for competitive procurements to establish the reasonableness of the costs.

Status: Castro reviewed a sample of procurements to determine whether a cost and price analysis had been performed for every procurement action exceeding the simplified acquisition threshold. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

Finding 3: One expenditure transaction tested for allowability under the cooperative agreement was not approved before entering into the accounting system records. FHI 360 processed the journal entry to correct previously recorded expenditures, but the journal entry was not approved until two years after it was originally recorded.

Status: Castro tested a sample of expenditures to determine whether a management official approved each transaction before the cost was entered into the accounting system. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

Finding 4: FHI 360 submitted drawdown requests under a letter of credit from USAID. For seven of these drawdowns, FHI could not produce documentation to demonstrate that they reviewed and approved each drawdown for accuracy and that the requests were in line with their immediate cash requirements.

Status: Castro reviewed the supporting documentation for a sample of drawdowns selected for testing to assess accuracy, completeness, and proper authorization by management prior to funds being drawn. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

Report: SIGAR Financial Audit No. 20-12 dated June 5, 2019 of costs incurred under Contract No. AID-306-C-16-00007 for the period of May 11, 2016 through May 10, 2018

Finding 1: FHI 360's payroll included paid medical, food, and transportation allowances for employees in excess of what their internal policy allows.

Status: Castro conducted testing of both the controls over compliance with compensation and the allowability of actual costs charged to the award. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

Finding 2: FHI 360's General Ledger erroneously included items that were unrelated to the IHSAN project.

Status: Castro conducted testing over expenditures to determine whether the costs incurred for the program were allowable and allocable to the award. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

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Finding 3: FHI 360 inaccurately included inventory belonging to a different FHI 360 project in the IHSAN property records. In addition, FHI inaccurately included personnel time charged to a different project as an expense under IHSAN.

Status: Castro reviewed the inventory listing and supporting documentation for the project to determine whether the inventory was appropriately included in the listing. In addition, Castro reviewed the expenditures and their supporting documentation for each program to determine whether the costs incurred were incurred for the correct project. No exceptions were noted during our testing; therefore, this matter is not a repeat condition during the period under audit.

[REDACTED]

Finding 1: FHI 360 did not submit the report in the required SF 425 format. The format used for

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

SIGAR's Mission

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

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

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SIGAR's Mission

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