

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 23-33 Financial Audit

USAID's Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan Program: Audit of Costs Incurred by [REDACTED]

In accordance with legal requirements, SIGAR has redacted from this report certain information because it is proprietary, could impact public safety, privacy, or security, or is otherwise sensitive.



SEPTEMBER
2023

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 30, 2020, the U.S. Agency for International Development (USAID) awarded a \$10,000,000 grant to [REDACTED] in support of its Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan program. The program's goal was to alleviate the immediate shelter, food, and nutrition needs of conflict and natural disaster-affected communities in hard-to-reach areas of Afghanistan. The initial period of performance was from [REDACTED] through [REDACTED]. [REDACTED] USAID modified the grant twice; the modifications extended the period of performance to [REDACTED], but did not change the total award amount.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$9,976,230 in costs charged to the grant from October 1, 2020, through August 30, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in [REDACTED] internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether [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. Our review disclosed no instances wherein Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

September 2023

USAID's Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan Program: Audit of Costs Incurred by [REDACTED]

SIGAR 23-33-FA

WHAT SIGAR FOUND

Conrad identified three significant deficiencies in [REDACTED] internal controls and three instances of noncompliance with the terms of the award. For example, in 155 of 489 food transactions tested, Conrad found that [REDACTED] lacked documentation—such as vendors' invoices or cash receipts—demonstrating that costs were allocable to the program. Additionally, Conrad found no evidence demonstrating that procurement protocols were followed, increasing the risk of government overpayment. In another example, Conrad found that in 33 of 38 payroll samples, [REDACTED] charged the grant for amounts greater than those stated in the employee contracts. SIGAR notified [REDACTED] of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Conrad identified \$75,195 in total questioned costs, consisting of \$6,251 in ineligible costs—costs prohibited by the award and applicable laws and regulations—and \$68,944 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Salaries	[REDACTED]	[REDACTED]	[REDACTED]
Fringe Benefits	[REDACTED]	[REDACTED]	[REDACTED]
Indirect Costs	[REDACTED]	[REDACTED]	[REDACTED]
Total Costs	\$6,251	\$68,944	\$75,195

Conrad identified one prior audit report that was relevant to [REDACTED] award. The report contained three findings that could have had a material effect on the SPFS. Conrad conducted follow-up procedures and concluded that [REDACTED] took adequate corrective action on all three findings.

Conrad issued an unmodified opinion on [REDACTED] SPFS, noting it presents fairly, in all material respects, revenues received, costs incurred, and balances for the period audited.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$75,195 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

September 29, 2023

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

Ms. Sarah Charles
Assistant to the Administrator of USAID's
Bureau for Humanitarian Assistance

Mr. Joel Sandefur
Mission Director, U.S. Agency for International Development

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) in support of its Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan program.¹ The program's goal was to alleviate the immediate shelter, food, and nutrition needs of conflict and natural disaster-affected communities in hard-to-reach areas of Afghanistan. Conrad reviewed \$9,976,230 in costs charged to the grant from October 1, 2020, through August 30, 2022. 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 grant officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$75,195 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. We also inquired about Conrad'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 [REDACTED] Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated September 15, 2023, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

¹ The grant number is [REDACTED]. It was funded by USAID's Offices of U.S. Foreign Disaster Assistance and Food for Peace, which have since been combined into USAID's Bureau for Humanitarian Assistance



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

Please provide documentation related to corrective actions taken and/or target dates for planned 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-255)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in
Afghanistan, for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	2
Objectives, Scope, and Methodology	2
Summary of Results	5
Review of Prior Findings and Recommendations	7
Summary of [REDACTED] Responses to Findings	7
Independent Auditor's Report on the Special Purpose Financial Statement	9
Special Purpose Financial Statement	12
Notes to the Special Purpose Financial Statement	13
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	16
Independent Auditor's Report on Internal Control	17
Independent Auditor's Report on Compliance	19
Schedule of Findings and Questioned Costs	21
Status of Prior Audit Findings	35
Appendices:	
Appendix A: [REDACTED] Responses to Audit Findings	37
Appendix B: Auditor's Rebuttal to [REDACTED] Responses to Audit Findings	47



September 15, 2023

Board of Directors
[REDACTED]

Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

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 [REDACTED] Special Purpose Financial Statement under Grant Agreement No. [REDACTED] awarded by the United States Agency for International Development's Mission in Afghanistan for the period October 1, 2020 through August 30, 2022, in support of the Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan.

On July 25, 2023, we provided SIGAR with a draft report reflecting our audit procedures and results. [REDACTED] received a copy of the report on August 23, 2023 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]. Additionally, [REDACTED] responses and Conrad's corresponding rebuttals are incorporated into this report following our audit reports.

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

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA
Partner



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Background

On September 30, 2020, the United States Agency for International Development's (USAID), Offices of Foreign Disaster Assistance (OFDA) and Food for Peace (FFP) awarded Grant Agreement No. [REDACTED] (Award) to [REDACTED] in support of Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan (the Program). In 2021, USAID combined OFDA and FFP to create the Bureau of Humanitarian Assistance.

The purpose of the Award was to alleviate the immediate shelter, food and nutrition needs of conflict and natural disaster affected communities in hard-to-reach areas of Afghanistan, while informing humanitarian programming and decision making. [REDACTED] stated objectives for the Program are as follows:

- Food security and livelihoods: to provide immediate food assistance to conflict and natural disaster affected communities in hard-to-reach areas.
- Nutrition: to provide life-saving nutrition support to conflict and disaster affected households.
- Shelter and settlements: to support vulnerable returnees, internally displaced and natural disaster affected households through transitional shelter, as well as providing winterization assistance to the most vulnerable households.
- Water, sanitation and hygiene: to improve sanitation infrastructure and hygiene for returnees and natural disaster affected households.
- Humanitarian coordination and information management: improve the understanding of the volatile humanitarian situation in Afghanistan through a stronger informant management structure that (1) adequately includes the perspective of women and non-household head members, (2) monitors the development of needs in hard-to-reach areas, and (3) facilitates regular joint analysis of existing information sources - across sectors and geographic areas.

The initial award amount was \$10,000,000, of which \$4,296,034 was funded by FFP and \$5,703,966 was funded by OFDA. The award's period of performance was from [REDACTED], through [REDACTED]. There have been two modifications to the Award to extend the period of the Award, to amend the program description, and to transfer funds from direct to indirect costs, which did not have an impact on the total award amount. The modifications extended the period of performance from [REDACTED] to [REDACTED], and then again to [REDACTED]. See the *Summary of Award* below.

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
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Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Summary of Award

Award 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]	\$10,000,000	[REDACTED]	[REDACTED]	2	No change	[REDACTED]

* Indicates the award is a close-out.

[REDACTED] is a private, non-profit organization founded in [REDACTED]; implements programs in Africa, Asia, the Middle East, Latin America, and the Caribbean [REDACTED]

Work Performed

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the Award, as mentioned above, of [REDACTED] Special Purpose Financial Statement (SPFS) for revenue received and costs incurred under the Program totaling \$9,976,230 for the period October 1, 2020, through August 30, 2022.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit of the Award include the following:

- *Special Purpose Financial Statement* – 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.

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Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

- *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 October 1, 2020, through August 30, 2022, totaling \$9,976,230 under the Award. Our testing of the indirect cost charged to the Award 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 in the Negotiated Indirect Cost Rate Agreement (NICRA) and subsequent applicable amendments.

Audit Methodology

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

Entrance Conference

An entrance conference was held on January 30, 2023, with representatives of [REDACTED] Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of the 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]. The scope of our audit includes [REDACTED] management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of [REDACTED] through interviews, observations, and reading

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
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for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
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For the Period of October 1, 2020, through August 30, 2022

policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:

- Award and modifications.
 - Any regulations that are specific to the Award's requirements, such as 2 CFR 200 Subpart E Cost Principles, 2 CFR 700 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, USAID Automated Directives System (ADS) Chapter 303, Grants and Cooperative Agreements to Non-Government Organizations.
 - Audited financial statements.
 - Previous SIGAR and USAID financial audit reports.
 - Close-out requirements and evidence supporting close-out procedures performed.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Award, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, reasonable, and allocable to the Award;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional and final negotiated indirect cost rates to ensure that they were accurately applied.

Internal Controls Related to the Award

We reviewed [REDACTED] internal controls related to the Award 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

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[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
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for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

Compliance with the Award Requirements and Applicable Laws and Regulations

We performed tests to determine whether [REDACTED] complied, in all material respects, with the Award requirements, 2 CFR 200, 2 CFR 700, ADS 303 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 prior audit reports from SIGAR and [REDACTED] and reviewed these reports to determine if there were any findings and recommendations that could have a potential impact on this audit. We also conducted a search online of various governmental websites including SIGAR (www.sigar.mil), USAID (www.usaid.gov), 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. 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. See the *Status of Prior Audit Findings* section on page 35.

Exit Conference

An exit conference was held on July 6, 2023, via conference call. Participants included representatives from Conrad, [REDACTED] SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

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

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$75,195 in total questioned costs, comprised of \$6,251 in ineligible costs and \$68,944 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Award's provisions or applicable laws and regulations, or not related to the Award. Unsupported

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Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
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Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on [REDACTED] SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Controls

Our audit identified three internal control findings which are considered significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 17.

Compliance

The results of our testing identified three instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 19.

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*. [REDACTED] self-disclosed 11 instances of alleged fraud that could have a potential impact on the Program and the SPFS. Based on further discussions with [REDACTED] and review of the alleged incidences of fraud, an internal investigation into these allegations was conducted and the results found that there was material effect to the Program or the SPFS during the period under review. As such, please see **Finding 2023-01** for further detail.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2023-01	Non-compliance and Internal Control – Significant Deficiency	Internal control deficiency in preventing and detecting beneficiary fraud	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
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For the Period of October 1, 2020, through August 30, 2022

2023-02	Non-compliance and Internal Control – Significant Deficiency	Lack of supporting documenting vendors receipt of cash payments for food		[REDACTED]	[REDACTED]
2023-03	Non-compliance and Internal Control – Significant Deficiency	Salary payments in excess of contracted rates	[REDACTED]		[REDACTED]
Total Questioned Costs			\$ 6,251	\$ 68,944	\$ 75,195

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to [REDACTED] activities under the grant, we identified one (1) prior engagement, (SIGAR 23-11-FA USAID's Program Designed to Provide and Improve Shelter, Water, Sanitation, and Hygiene Services to At-Risk Populations in Afghanistan: Audit of Costs Incurred by [REDACTED] with three (3) findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. Based on our review, [REDACTED] took adequate corrective actions on all three (3) findings and recommendations. See *Status of Prior Audit Findings* on page 35 for a detailed description of the prior findings and recommendations.

Summary of [REDACTED] Responses to Findings

[REDACTED] disagreed with all three findings. Below is a summary of [REDACTED] responses. The complete responses received can be found at *Appendix A* starting at page 37 of this report.

2023-01 - [REDACTED] disagreed with the finding stating that there should be only 136 beneficiaries involved, not more than 160. In addition, [REDACTED] claimed that it implemented a wide range of controls which enabled them to detect and prevent the risk of fraud in its program and operations aimed at ensuring both reactive and proactive control mechanisms. The internal control system developed and implemented involves 1) assessment of the most efficient modalities to meet the humanitarian needs; 2) proactive mechanisms to

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Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

reduce the risk of aid redistribution for cash distributions; 3) monitoring and internal controls of subcontractors and partners; 4) appropriate identification and selection of beneficiaries and monitoring of [REDACTED] activities; and 5) controls for third-parties receiving assistance on behalf of the beneficiaries who are unable to attend the distribution.

Finding 2023-02 - [REDACTED] disagreed with the finding stating that 1) according to Afghanistan's labor laws, it is mandatory to provide employee's food allowances; 2) the food allowances were approved in the budget as Fringe benefits cost category; 3) [REDACTED] purchased daily fresh food items from small local markets and many vendors do not have the capacity to provide invoices or formal documentation; and 4) [REDACTED] implemented an internal invoice system called the Daily Purchase Bill that is structured to be reviewed and approved by authorized personnel. Also [REDACTED] provided an attestation from the cook at each of their offices in Afghanistan attesting that the food purchases were accurate.

Finding 2023-03 – [REDACTED] disagreed with the finding stating that the employment contract stated that USD amount is considered indicative, that the contract also included the language, "will be converted into AFS as per [REDACTED] internal rule," and that [REDACTED] had properly applied the conversion rate to USD when reported to the US Government.

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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
██████████

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 ██████████ and the related notes to the Special Purpose Financial Statement, with respect to the Grant Agreement No. ██████████ awarded by the United States Agency for International Development (USAID) in support of the Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan, for the period of October 1, 2020, through August 30, 2022.

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of October 1, 2020, through August 30, 2022, in accordance with the terms of the Award and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of ██████████ and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Presentation and Accounting

We draw attention to Notes 1 and 2 (a) to the Special Purpose Financial Statement, which describes the basis of presentation and the basis of accounting. As described in Note 1 to the Special Purpose Financial Statement, the statement is prepared by ██████████ on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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- 9 -

Responsibilities of Management for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction. 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 it is free from material misstatement, whether due to fraud or error.

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

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [REDACTED] internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 15, 2023 on our consideration of [REDACTED] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Award, 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

(Continued)



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

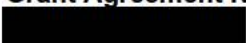













Conrad LLP

Lake Forest, California
September 15, 2023


 Financial Audit of the Special Purpose Financial Statement for
 Grant Agreement No. 
 Awarded by the United States Agency for International Development's Mission in Afghanistan,
 for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
 Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

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. 	\$10,000,000	\$10,000,000	\$ -	\$ -	\$ -	(2)
Total revenues	<u>10,000,000</u>	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	(3)
Costs incurred:						
Salaries	2,441,433	2,464,801				(A)
Fringe Benefits						(B)
Travel and Transport	68,269	71,246	-	-	-	
Program Supplies	3,858,849	3,813,234	-	-	-	
Transversal	281,833	268,859	-	-	-	
Other Direct Costs	735,699	754,011	-	-	-	
USAID Branding and Marketing	2,265	1,539	-	-	-	
Contractual / Sub-Awards	1,855,797	1,833,632	-	-	-	
Indirect Costs						(C)
Total costs incurred	<u>\$10,000,000</u>	<u>\$9,976,230</u>	<u>\$ 6,251</u>	<u>\$ 68,944</u>	<u>\$ 75,195</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 23,770</u>				

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Notes to Special Purpose Financial Statement¹

(1) Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under Award Number [REDACTED] for the "Provision of transitional and emergency shelter and sanitation facilities, food and nutrition assistance to conflict and natural disaster affected communities in hard-to-reach areas, whilst increasing evidence-based humanitarian programming in Afghanistan" for the period October 1, 2020, to August 30, 2022. Because the Statement presents only a selected portion of the operations of [REDACTED] it is not intended to and does not present the financial position, changes in net assets, or cash flows of [REDACTED]. 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 aforementioned Federal Award Number [REDACTED]. Therefore, some amounts presented in this Statement may differ from amounts presented in or used in the preparation of the basic financial statements.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

Revenues and expenditures reported on the Statement are reported on the basis of general accounting principles and recorded via [REDACTED] accounting system. Expenditures are recognized following the cost principles contained in single-entry cash accounting software called [REDACTED] and integrated on a yearly basis in [REDACTED] global double-entry accounting software called [REDACTED] to be certified by Statutory Auditors, wherein certain types of expenditures are not allowable or are limited as to reimbursement. [REDACTED] uses cash basis of accounting.

b. Foreign Currency Conversion Method

For purposes of preparing the Statement, translations from local currency to United States dollars were not required. [REDACTED] report is presented in USD, and conversion from local currencies into USD has been made following Inforeuro exchange rate, as per [REDACTED] global accounting policies. All amounts presented are shown in U.S. dollars.

(3) Revenues

Revenues on the Statement represent the amount of funds to which [REDACTED] is entitled to receive from BHA for allowable, eligible costs incurred under the grant during the period of performance.

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



Financial Audit of the Special Purpose Financial Statement for
 Grant Agreement No. [REDACTED]
 Awarded by the United States Agency for International Development's Mission in Afghanistan,
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 Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Notes to Special Purpose Financial Statement¹

(4) Cost Categories

The budget categories presented, and associated amounts reflect the budget line items presented within the final, approved award budget adopted as a component of the [REDACTED] P002 to the contract dated on October 8th, 2020.

Costs	
<u>Budget</u>	
Salaries	2,441,433
Fringe Benefits	[REDACTED]
Travel and Transport	68,269
Program Supplies	3,858,849
Transversal	281,833
Other Direct Costs	735,699
USAID Branding and Marketing	2,265
Contractual / Sub-Awards	1,855,797
Indirect Costs	[REDACTED]
 Total Costs Budget	 <u>\$10,000,000</u>

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

Type	Date Issued	Effective Period		Indirect Cost Rate
		From	Through	
Final	03/29/2021	01/01/2019	12/31/2019	[REDACTED]
Final	01/14/2022	01/01/2020	12/31/2020	[REDACTED]

It is to be noted that [REDACTED] NICRA for the years 2019 and 2020 is the Final, not the provisional one.

(5) Balance

The outstanding fund 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 grant and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

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



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
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Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Notes to Special Purpose Financial Statement¹

The \$23,770 difference shown in the report is due to an under expenditure of the implementing partner and will be reimbursed to BHA. [REDACTED] awaits the audit to be finalized and BHA to provide written reimbursement request in order to refund the \$23,770 outstanding balance amount.

(6) Currency

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

(7) Program Status

The "Provision of transitional and emergency shelter and sanitation facilities, food and nutrition assistance to conflict and natural disaster affected communities in hard-to-reach areas, whilst increasing evidence-based humanitarian programming in Afghanistan" is complete.

(8) Subsequent Events

[REDACTED] evaluated subsequent events through September 15, 2023 through which the date the Statement was available to be issued. [REDACTED] concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

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

██████

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. ██████████

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Salaries

██████ reported a total of \$2,464,801 for Salaries for the period of October 1, 2020, through August 30, 2022.

During our audit of these costs, we noted 33 instances where ████████ charged salary amounts in excess of the supported rate per the employment agreement. This resulted in ineligible costs of ████████. See **Finding No. 2023-03** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Fringe Benefits

██████ reported a total of ████████ for Fringe Benefits costs for the period of October 1, 2020, through August 30, 2022.

During our audit of these costs, we noted 155 instances where ████████ did not provide sufficient documentation to identify the local vendors, the types of food purchased, and to demonstrate that the vendors received the cash payments. This resulted in unsupported costs of ████████. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report.

(C) Indirect Costs

██████ reported a total of ████████ for Indirect Costs for the period of October 1, 2020, through August 30, 2022.

The indirect costs associated with questioned costs identified in **Notes A and B** above resulted in total unsupported indirect costs of ████████ and total ineligible indirect costs of ████████. This resulted in total questioned indirect costs of ████████.

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.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
[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 (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] (Award) in support of the Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan, for the period of October 1, 2020 through August 30, 2022. We have issued our report thereon dated September 15, 2023 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of October 1, 2020, through August 30, 2022, we considered [REDACTED] internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of [REDACTED] internal control. Accordingly, we do not express an opinion on the effectiveness of [REDACTED] 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

(Continued)

- 17 -

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. We did identify three deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Finding 2023-01, 2023-02, and 2023-03 are considered to be significant deficiencies.

Response to Findings

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

Conrad LLP

Lake Forest, California
September 15, 2023

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
██████████

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by ██████████ under Grant Agreement No. ██████████ (Award) in support of the Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan, for the period of October 1, 2020 through August 30, 2022. We have issued our report thereon dated September 15, 2023 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ██████████ Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Award, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, except as noted in Finding 2023-01 in the *Schedule of Findings and Questioned Costs*. 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 2023-01, 2023-02, and 2023-03.

██████████ Response to Findings

██████████ response to the findings identified in our audit is included verbatim at the *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 compliance, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part

(Continued)

- 19 -

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

Conrad LLP

Lake Forest, California
September 15, 2023

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs

Finding 2023-01: Internal Control Deficiency in Preventing and Detecting Fraud and Abuse on Beneficiary Cash Aids

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

[REDACTED] filed 10 reports to USAID which include 120 allegations of fraudulent or irregular activity to USAID in connection with the [REDACTED] ([REDACTED]) and [REDACTED] ([REDACTED]) program funded by FFP for a total of \$4,296,034. The allegations involved more than 160 beneficiaries. Conrad conducted additional interviews on the allegations and control environment as well as additional control testing surrounding the [REDACTED] programs. We noted the following findings:

Condition (a) – [REDACTED] did not ensure program funds were received and used by beneficiaries. As they were ineffective at shielding beneficiaries [REDACTED]
[REDACTED] The following are the allegations associated with this condition.

United Nations Toll-Free Aid Redistribution Hotline - reported one allegation involving [REDACTED].

- One beneficiary alleged they were asked to [REDACTED] to [REDACTED] and claimed they were threatened that if they didn't comply, they would never receive the assistance again. This individual provided the names of [REDACTED] other individuals [REDACTED]

[REDACTED] Complaints Response Mechanism (CRM) – reported 17 allegations involving 26 beneficiaries. [REDACTED] complaints between [REDACTED], where [REDACTED]

- [REDACTED] threatened [REDACTED] beneficiaries [REDACTED] each as [REDACTED]. Of the [REDACTED] complaints, [REDACTED] beneficiaries mentioned [REDACTED].
- One beneficiary was repeatedly intimidated by [REDACTED]. The [REDACTED] threatened to discontinue the beneficiary's [REDACTED]
- Two [REDACTED] beneficiaries had [REDACTED], claiming they had [REDACTED]
- One beneficiary was told [REDACTED]. The complainant mentioned that [REDACTED] were also asked [REDACTED]
- Two beneficiaries were told [REDACTED]. One of these beneficiaries identified [REDACTED] other individuals [REDACTED]

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

-
- [REDACTED] instances where beneficiaries were [REDACTED]
 - [REDACTED] Post Distribution Monitoring (PDM) Program—reported [REDACTED] allegations involving 14 beneficiaries.
 - Three beneficiaries, from the [REDACTED], were asked to [REDACTED]
 - Seven beneficiaries, from the [REDACTED], were asked to [REDACTED]
[REDACTED] This complainant also named [REDACTED] other people [REDACTED].
 - Two beneficiaries, from [REDACTED], complained that they were [REDACTED]

Condition (b) [REDACTED] subcontracted with entities that either accepted ineligible beneficiaries, did not make payment, made partial payment to eligible beneficiaries, or made payments to ineligible beneficiaries. The following allegations were made:

- An [REDACTED] subcontractor (one of the two major subcontractors that assisted in carrying out [REDACTED] programs) did not properly conduct beneficiary eligibility verifications and/or survey interviews to determine eligibility for the [REDACTED] programs. [REDACTED] field staff members identified 19 beneficiaries that the subcontractor claimed to be eligible who were in fact not eligible and provided false information and statements in order to receive [REDACTED] assistance.
- An [REDACTED] subcontractor (the other major subcontractor) reported cost to [REDACTED] for cash payments the subcontractor did not make and for payments where fingerprints, acknowledging receipt, were duplicated or missing. [REDACTED] identified the issues with this contractor when they conducted post-distribution monitoring (PDM), and the contract was terminated. [REDACTED] reported:
 - a) [REDACTED] instances where the subcontractor [REDACTED]
 - b) Nine instances where [REDACTED]. The beneficiaries were to receive 21,000 AFN but were found on average approximately 1,819 AFN.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

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For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

- c) 38 instances where the beneficiary's fingerprint stamp to acknowledge receipt of cash appeared to be duplicate of other beneficiary's fingerprints.
- d) One instance where there was no fingerprint or evidence of beneficiary acknowledgement of cash received.

The total dollar amount associated with the subcontractor diverting aid is \$17,159. This amount was not paid to the Subcontractor, nor did [REDACTED] claim this amount from USAID.

Condition (c) - [REDACTED] ([REDACTED] eligibility - [REDACTED] did not make a distinction between skilled and unskilled labor prior to distributing benefits. Skilled laborers must work 12 days a month to receive the full [REDACTED] benefit, while unskilled workers must work 19 days per month to receive cash aids.

Condition (d) - [REDACTED] could not provide evidence demonstrating they made required follow-up phone calls with beneficiaries whose relatives signed for cash on their behalf on the day of distribution. [REDACTED] cash distribution forms require a formal follow-up phone call with beneficiaries, in these cases, to ensure the beneficiary received the cash.

Criteria:

Terms of the Award, Attachment 2, Program Description, subsection 4b. Distribution Method, states in part:

"Strong protection mechanisms will be put in place throughout the cash programming, including a protection analysis at the onset of the project, to ensure that risks are identified and mitigated, in the selection of the distribution site, time and date, cash transportation and delivery (e.g., use of money transfer agent), distribution process, and post-assistance (e.g., theft/ extortion)"

[REDACTED], states in part:

"Falsely recording the [REDACTED] will not help the [REDACTED] and will not help you! If the data you collected is considered to be unreliable and of low quality, you will not be paid. [REDACTED]"

[REDACTED]
Management, states in part:

[REDACTED] should ensure that procedures to be followed by the partners have been clearly identified and that the partner is capable to apply it.

Project, financial and logistics procedures to be followed by the partner can be whether:

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
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Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

-
- Donor's procedures
 - [REDACTED] procedures
 - Partner's own procedures, if existing and relevant

In order to ensure these procedures are respected, [REDACTED] has to set:

- An audit timeframe: regular audits, final audit only, etc.
- A [REDACTED] timeframe: regularly during the project, only at the end, or in case of external audit, etc."

Terms of the Award, Attachment 2, Program Description, subsection, Food for Peace, states in part:

"...the Partners will provide [REDACTED] and livelihoods assistance to [REDACTED] households through the modality of [REDACTED] of the value of 180 USD to cover the full [REDACTED] for 2 months per household (90 USD or 6,500 AFN per month). Based on [REDACTED] Cluster's 2020 Strategy, beneficiaries will be required to work approximately 19 days per month (unskilled), and/or 12 days per month (skilled), to obtain the full [REDACTED] value. The [REDACTED] activities aim to cover [REDACTED] and income gaps and rehabilitate basic livelihoods infrastructure and ensure that linkages with longer-term solutions and livelihoods are established."

[REDACTED] states:

"The present form needs to be brought by the project team for each distribution activities. As part of [REDACTED] if a beneficiary does not show up at the moment of the [REDACTED] and in case an identifiable and verifiable close relative (i.e., father, mother, brother, sister, children, wife, husband) is representing him/her... Finally, a phone call will be made by the Project Manager to the absent beneficiary on the days following the [REDACTED]"

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. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
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Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

-
- (b) *Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards;*
 - (c) *Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards...*

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:

- 1) [REDACTED] stated that [REDACTED] aid by the beneficiaries is beyond [REDACTED] control. [REDACTED] did not develop sufficient post assistance monitoring controls focused on preventing other individuals or entities [REDACTED]
- 2) [REDACTED] did not have sufficient procedures in its subcontractor vetting and monitoring policies to mitigate the risk of contracting with entities willing to engage in irregular behavior, and ensure subcontractors had sufficient control mechanisms to catch ineligible beneficiaries. Subcontractors were expected to follow [REDACTED] monitoring procedures, and [REDACTED] field staff were expected to monitor the subcontractors. However, [REDACTED] had not developed any formal step by step procedures to monitor subcontractors' compliance with [REDACTED] procedures.
- 3) [REDACTED] did not have a detailed verification process in place for [REDACTED] skilled and unskilled labor qualification candidates. [REDACTED] stated they determined beneficiary qualifications based on interviews/surveys with beneficiaries and [REDACTED]. However, [REDACTED] pre-distribution survey included just one question related to work eligibility. There was no other evidence or mechanism to demonstrate how [REDACTED] determined what qualified as skilled versus unskilled labor.
- 4) [REDACTED] did not require nor did it have processes to document efforts to reach beneficiaries whose relatives signed for benefits on their behalf.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
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For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

Effect:

Lack of sufficient controls facilitated fraudulent activity, harmed beneficiaries, and risked the government's ability to achieve its program objectives. Specifically:

- 1) Lack of sufficient controls related to cash disbursement led to confirmed fraudulent activity and exposed the project to additional vulnerabilities. Fraudulent activity on this project meant government funds were not received by intended beneficiaries, placed beneficiaries at risk, and threatened the achievement of program objectives. In addition, there may be undetected and or unreported fraud.
- 2) The lack of formal ongoing subcontractor monitoring contributed to the diversion of program funds to persons ineligible to receive funds.
- 3) The lack of an adequate verification process to determine laborer skills meant program directives were not carried out as intended and the government may have been overcharged for laborers being paid more than the program intended.
- 4) Failure to perform follow-up calls may contribute to ineligible persons receiving was program funds.

Questioned Costs: There are no questioned costs associated with this finding. Since the allegations are still pending further investigation by USAID, monetary impact, if any, is yet to be determined pending on USAID investigation results. Also, in the allegation where the subcontractor reported costs for payment not made to the beneficiaries, made partial payment to eligible beneficiaries, or made payments to ineligible beneficiaries, the amount impacted was not paid to the Subcontractor or charged to the program.

Recommendation:

- (1) We recommend [REDACTED] develop a policy and procedure to provide alternative means of aid rather than cash in order to avoid fraudulent activities, ensure beneficiary safety, prevent re-distribution and ensure program objectives can be met.
- (2) **Cash Re-Distribution.** We recommend [REDACTED] enhance post distribution monitoring (PDM) mechanisms and controls to proactively prevent and detect potential fraud. PDM capacity should be increased to reach a larger number of beneficiaries. PDM activities should focus on post-assistance interviews related to aid re-distributions. PDM results and analyses should be shared with USAID.

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

- (3) **Subcontractors.** We recommend [REDACTED] strengthen subcontractor vetting procedures and develop detailed subcontractor monitoring procedures to ensure that only persons eligible to receive cash assistance receive it and that the cash assistance is properly distributed.
- (4) **Skilled and Unskilled Qualifications.** We recommend [REDACTED] develop a detailed verification process, including questions such as job type, years of experience, and skills, to ensure [REDACTED] recipients meet the proper qualifications.
- (5) **Beneficiary Substitution Protocol.** We recommend [REDACTED] develop additional procedures to formally document and maintain evidence, such as case notes, follow-up calls or other procedures, with the aim of verifying absentee beneficiaries received the cash that was given to relatives on their behalf.

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

Finding 2023-02: Lack of Support Documenting Vendors' Receipt of Cash Payments for Food

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

Condition: Conrad tested 26 transactions out of 489 transactions in the Fringe Benefits category, representing \$28,639 out of a total \$95,392 for these transactions to determine if costs incurred under the Award were allowable, reasonable, and adequately supported.

During our initial testing we noted 21 instances, in the Daily Fresh Food category (which included a variety of food types such as eggs, bread, vegetables, meats, etc.) where [REDACTED] did not provide sufficient documentation, such as vendors' invoices and payment receipts, demonstrating costs were allocable to the project. Additionally, there was no evidence demonstrating procurement protocols were followed. There was no evidence [REDACTED] used a supplier selection process, received quotations, drafted selection memos, or established contractual relations with its food vendors. Due to the frequency of errors in our original sample selection, we expanded the sample to include all Daily Fresh Food transactions. This expanded sample selection increased the total number of instances noted from 21 or \$27,228 to 155 instances or \$64,289.

Issue	Description	Samples Tested	Sampled Amount	Expanded Sample Count	Expanded Amount
1	Transaction documentation lacked vendor invoices and receipts of payment, but the daily purchase bill was stamped by a single vendor. [REDACTED] utilized a daily purchase bill that listed the quantity and unit price of daily food purchases. The purchase bill for each [REDACTED] office in Afghanistan was usually stamped by just one vendor suggesting all food was purchased from the same vendor. Conrad was unable to verify the number of vendors used by [REDACTED]. Additionally, the daily purchase bill was incomplete and vague. For example, unit prices remained stable from day to day and descriptions of food sometimes used generic terms such as "meat" without	3	[REDACTED]	67	[REDACTED]

(Continued)



Financial Audit of the Special Purpose Financial Statement for
 Grant Agreement No. [REDACTED]
 Awarded by the United States Agency for International Development's Mission in Afghanistan,
 for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
 Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

	indicating a specific type of eat which would help to ascertain if the unit price was reasonable.				
2	Transaction documentation lacked vendor invoices, payment receipts, vendor name, and vendor stamps on the daily purchase bill. Without documentation we were unable to determine if the costs were allocable and reasonable as we could not identify the vendor's existence, verify food was purchased and received, and vendors were paid.	9	[REDACTED]	23	[REDACTED]
3	Transaction documentation included an [REDACTED] staff's signature indicating goods were received by the staff. However, transaction documentation lacked vendor invoices, payment receipts, vendor names, and vendor stamps on the daily purchase bill. Without documentation we were unable to determine if the costs were allocable and reasonable since we could not identify the vendor's existence, verify food was purchased and received, and vendors were paid.	9	[REDACTED]	65	[REDACTED]
Totals		21	\$ [REDACTED]	155	\$ [REDACTED]

Criteria:

[REDACTED] states in part:

*"A voucher without any documentation attached is not valid, because it does not prove the purpose of the expense. It is then crucial for finance department staff to remember that **there must not be any voucher without supporting document(s)**. Supporting documents will be depending on the scenario of each purchase (see [REDACTED] [REDACTED])"*

In any case and whatever the amount at stake, each payment to a supplier must be justified by:

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

- A bill or invoice
- A receipt signed by the supplier

NB: The finance voucher signed by the supplier can be considered as a receipt (see below)...

...When a project includes the [REDACTED] (to be used in an [REDACTED] fair and in given marketplaces), specific supporting documentation is required:

- Documentation on supplier selection: quotations and/or selection memo
- A contract must be signed between [REDACTED] and each supplier, with details on products characteristics and prices, and forecasted date of payment by [REDACTED]
- A payment sheet will then be done for each supplier, with details on what has been exchanged against [REDACTED] quantities for each product and corresponding value. This payment sheet must be signed by the program staff in charge [REDACTED] and by the supplier. One copy will be kept by [REDACTED] another by the supplier.
- The suppliers, to be paid, must come to an [REDACTED] office – preferably the capital one – with their payment sheet and the [REDACTED]
- Finance team, before paying suppliers, must ensure that [REDACTED] payment sheets and suppliers' match, and that the correct number of vouchers have been brought back..."

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...*
- (g) *Be adequately documented.*
- (h) *Cost must be incurred during the approved budget period..."*

2 CFR 200.400, Policy guide, states in part:

"(d)...the accounting practices of the nonfederal entity ... must provide for adequate documentation to support costs charged to the Federal award."

Cause: [REDACTED] stated that rather than giving each employee a food allowance, they purchased food from local vendors and prepared lunch for their employees which appears to be more practical and safer as employees don't need to leave premise to get lunch. However, when [REDACTED] purchased the food they neglected to follow their internal policies specific to food purchases. Additionally, [REDACTED] food purchase

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

policy allowed the purchase voucher, signed by suppliers, as evidence of support for food purchased. This was shown to be insufficient control as we found the vouchers did not always facilitate vendor identification, contain accurate quantity and unit prices, or provide confirmation the vendor actually received payment.

Effect: Due to the lack of sufficient supporting documentation, such as a vendor's invoice including the vendor's name, purchase quantity, and unit price, along with the lack of competitive procurement, there is a risk the U.S. Government may have overpaid for goods and services. Additionally, the lack of sufficient controls increases the risk of fraud, waste, and abuse.

Questioned Costs: We identified [REDACTED] in unsupported costs and [REDACTED] in associated indirect costs, which resulted in [REDACTED] in total questioned costs.

Recommendation:

- (1) We recommend that [REDACTED] provide documentation, such as vendor's invoices, evidence of competitive procurement, evidence of the local vendor used, the type of food purchased, and documentation demonstrating local vendors received cash payments made for food purchases or return \$68,944 of unsupported costs.
- (2) We recommend [REDACTED] revise its food policies and procedures related to documentation. Specifically, policies and procedures should address what documents are sufficient to demonstrate costs are allocable to the project – such as vendors' invoices and payment receipts.
- (3) We recommend [REDACTED] adopt procedures ensuring [REDACTED] follows its policies related to supplier selection and payments.

(Continued)

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Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. ██████████

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

Finding 2023-03: Salary Payments in Excess of Contracted Rates

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

Condition: Conrad tested 43 employee's transactions out of 440 transactions in the Salaries category, representing \$253,720 out of a total \$2,464,801, to determine if costs incurred under the Award were allowable, reasonable, and adequately supported.

Of the 43 employee's transactions, 38 are Cooperating Country National (CCN) employees. Out of the 38 CCN employees, we noted ██████████ charged salary amounts for 33 employees in excess of the amounts stated in their employment agreements and five employees charged less than the amounts stated in the employment agreement. Employment agreements stated salary rates in United States Dollars (USD). However, ██████████ paid its employees in Afghani (AFN) using an exchange rate on the day of payment. At the end of the month, when ██████████ prepared its financial report, they converted the salaries paid in AFN back to USD using the exchange rate available the day the report was prepared. This practice resulted in salaries that were sometimes overbilled and sometimes underbilled. Because of exchange rate fluctuations, this led to ██████████ overcharging the Donor by ██████████ for the 33 CCN employees who overcharged and undercharging the Donor by \$1,990 for the five CCN employees who undercharged. The net result is \$5,829 in questioned ineligible employees' salary costs.

Criteria:

██████████ states in part:

Exchange rate

Internal procedure:

██████████ exchange rate sent every 1st of month by HQ. In order to be in position to submit reports in all currencies requested by the donors, ██████████ has choose the ██████████ exchange rate as its monthly rate, for both Field and HQ expenses. This rate is accepted by all our donors, e.g., ██████████ agencies, ██████████

On a monthly basis, on the 1st of each month HQ Finance Intern send the ██████████ table to all Country Finance Officers, who have to ██████████

██████████ states in part:

"Gross Salary (per month): \$XXXX"

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

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...*
- (g) Be adequately documented.*
- (h) Cost must be incurred during the approved budget period...”*

2 CFR 200.303, Internal Controls, states in part:

“The non-Federal entity must:

- (d) 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. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*
- (e) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards;*
- (f) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards...”*

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.”

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]

Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Schedule of Findings and Questioned Costs (Continued)

Cause: [REDACTED] exchange rate policy does not cover amounts required to be paid in USD. In lieu of policies and procedures, [REDACTED] practice was to pay employees in AFN and convert the payments back to USD for billing purposes without considering the effect it would have on billed amounts. As such salary amounts billed to the government fluctuated with the exchange rate when they should have been fixed to the USD amount stated in the employment contract.

Effect: The government unnecessarily absorbed the monthly impact of exchange rate fluctuations. A full reconciliation of the salaries charged would reveal the total financial impact on the government - quantifying the potential amount the government was overcharged \$5,829 for salary amounts.

Questioned Costs: We identified [REDACTED] in ineligible costs and [REDACTED] in associated indirect costs, which resulted in [REDACTED] in total questioned costs.

Recommendation:

- (1) We recommend that [REDACTED] charge the Program the USD amount listed on the employment contracts and return the questioned costs of \$5,829.
- (2) We recommend [REDACTED] to conduct a full reconciliation of all salary amounts charged to the government, and as applicable, compensate the government for any net overcharge.
- (3) We recommend that [REDACTED] develop a policy for when the salary rate in the employee's agreement is in USD, then no conversion should be performed when reporting costs and claiming reimbursement from the Donor.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Status of Prior Findings

We requested prior audit reports, evaluations, and reviews from [REDACTED] SIGAR, and USAID pertaining to grant activities under this audit. We identified one prior audit report which contained three findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with [REDACTED] management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

1. [REDACTED] – SIGAR 23-11-FA (USAID's Program Designed to Provide and Improve Shelter, Water, Sanitation, and Hygiene Services to At-Risk Populations in Afghanistan: Audit of Costs Incurred by [REDACTED] - An audit of costs for the period of July 1, 2019, through February 28, 2022.

Finding 2022-01: Costs benefiting multiple programs were allocated to the Program in excess of the proportional benefit

Issue: The audit firm noted that ineligible shared support costs were incorrectly charged to the Program. [REDACTED] stated that they estimate allocated costs based on historical accounting records, market surveys, and experience on similar activities carried out in the country of intervention. [REDACTED] performed a final ratio analysis for allocated costs at the close of the Program. The audit firm noted that the shared support costs exceeded the proportional benefit, which resulted in [REDACTED] overcharging the Program.

Status: For the current engagement, [REDACTED] performed a final ratio analysis for allocable costs, and there were no instances of shared supported costs exceeding the proportional benefit. It appears that adequate controls have been put into place. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

Finding 2022-02: [REDACTED] incorrectly charged ineligible travel and internet costs to the Program

Issue: The audit firm noted that [REDACTED] had instances where a cancelled train ticket was not reimbursed back to the Program, airfare purchased for three separate trip segments should have been allocated between programs and was not, and internet fees from before the Program start date should not have been charged to the Program.

Status: For the current engagement, we tested Travel and Transport as well as Other Direct Costs. During our sample-based testing we did not identify any similar issues, and this finding was not repeated. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

(Continued)



Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

Status of Prior Findings (Continued)

Finding 2022-03: [REDACTED] did not adhere to its internal policies relating to bi-annual employee appraisals

Issue: The audit firm noted that [REDACTED] was unable to provide bi-annual employee appraisals, which constitutes a formal evaluation and salary determination.

Status: For the current engagement, we reviewed the employees' personnel files. During our sample-based testing, we did not identify any similar issues and this finding was not repeated. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Awarded by the United States Agency for International Development's Mission in Afghanistan,
for the Provision of Transitional Shelter, Protection, and Multipurpose Cash
Support to Disaster-Affected and Returnee Populations in Afghanistan

For the Period of October 1, 2020, through August 30, 2022

[REDACTED] **Responses to Audit Findings**

Included on the following pages are [REDACTED] responses received to the findings identified in this report.

Management Letter to findings in draft report of the Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. [REDACTED]

- **Finding 2023-01: Internal Control Deficiency in Preventing and Detecting Fraud and Abuse on Beneficiary Cash Aids**

Management response:

[REDACTED] contests this finding and would like to bring further clarifications. First, there are some inaccuracies in the description and figures of the condition (a) of this finding. The allegations do not involve more than 160 beneficiaries but a total of 136. Also, there was [REDACTED], instead of [REDACTED], who complained that [REDACTED] in [REDACTED]. Moreover, as per its internal control system, [REDACTED] implemented a wide range of controls which enable to detect and prevent the risk of fraud in its program, operations, aimed at ensuring both reactive and proactive control mechanisms. The internal control system developed and implemented involves 1) assessment of the most efficient modalities to meet the humanitarian needs, 2) [REDACTED] [REDACTED] monitoring and internal controls of subcontractors and partners, 4) appropriate identification and selection of beneficiaries and monitoring of [REDACTED] activities, 5) controls for third-parties receiving the assistance on behalf of the beneficiaries who are unable to attend the distribution.

Firstly, regarding the reassessment of program objectives and alternative distribution modalities than cash explored to provide aid, [REDACTED] takes note of the auditor's recommendations. Nevertheless, [REDACTED] believes that allegations of fraud (e.g. aid diversion and/or aid redistribution) is not directly linked to the program objectives to meet the humanitarian mandates of live saving and address beneficiaries needs but rather to i) risk mitigations, ii) control mechanisms, iii) protection mechanisms. Indeed, [REDACTED] would like to clarify that risk mitigation with regards to protection/safeguarding risks, accountability and transparency are three different folds of overall program quality. While risk mitigation in terms of protection/safeguarding risks lies with the program team, accountability lies with the [REDACTED] and transparency lies with the [REDACTED]. Understanding the need for coherent and adaptive management, these three units work closely together and ensure to share relevant information. In this way, the three control mechanisms are mutually reinforcing.

In addition, the audited project intervention was named "*Provision of Transitional Shelter, Protection, and Multipurpose Cash Support to Disaster-Affected and Returnee Populations in Afghanistan*", meaning that cash assistance was proposed and agreed by both [REDACTED] and BHA as the most relevant and primary assistance channel to meet the program objectives. Indeed, Multipurpose Cash assistance is widely favored in Afghanistan by donors and affected populations, as a mechanism for delivery essential aid that is cost-effective; efficient; and dignified – enabling affected communities to control their own assistance and define their own priorities. [REDACTED] Afghanistan has gained significant experienced working through the cash modality in Afghanistan and is able to bring a significant body of experience and lessons learned to new cash interventions. As an example, [REDACTED] is currently implementing 6 projects funded by multiple donors, with a cash distribution objective (for work, winterization, education, training/vocational activities). As sustained by one of the UN agencies (IOM) and according to the report published in June 2023 by the IOM titled "IOM Cash-Based Interventions, Annual Report and Case Studies 2022" (available in the calpnetwork.org) the IOM aims in the next quinquennium to increase and leverage the use of Cash-based interventions (CBI) as a key enabler to improving access of migrants, displaced populations and other affected communities to basic needs, protection, and other rights, as well enhancing their resilience in situations of crisis, transition, recovery and development. Understanding the CBI as a catalyst for more *comprehensive and sustainable solutions* by linking humanitarian cash assistance with social protection systems, livelihood support and other

developments' program where possible. (p. 48). Please note that this report is attached to this response in **annex 1**. For example, in 2022, the IOM provided Multipurpose Cash Assistance (MPCA) in 32 out of 34 provinces in Afghanistan. The above-mentioned report refers that aid recipients expressed their preference for the MPCA as this allows them to *satisfy needs related to their own conditions and environment*. In another report (2022) about [REDACTED] it was argued that Multipurpose cash assistance was preferred by the population compared to in-kind support, as beneficiaries said they have the opportunity to prioritize their own needs. (p. 5, 15). This report is attached to this response in **annex 2**. As well regarding Afghanistan in this topic, the MPCA challenges were presented, indicating that violence and tensions can be associated challenges to cash assistance across the country. Among the inter-cluster objectives, there is the mainstreaming of protection and accountability to affected population concerns in cash and voucher assistance. In addition, there is no guarantee that in-kind distributions would significantly prevent and reduce the risks related to fraud and aid re-distribution. Changing the distribution modality would not annihilate the risks of the activity. Indeed, in-kind assistance is associated with similar aid diversion risks than cash distribution (i.e. re-distribution to an external third party). As such, [REDACTED] implements the same internal control framework to prevent the risks related to the distributions.

[REDACTED] would like to put an emphasize on the fact that in the project/country risk mitigation assessment submitted to BHA in the frame of the project proposal, it was clearly pointed out that corruption risk is prevalent in Afghanistan and as such may affect the programs. Indeed, the Corruption Perception Index published by Transparency International for 2022 (available at [transparency.org](https://www.transparency.org)), resulted in a score of 24 for Afghanistan, (where 0 = corruption replaces the government; and 100 = corruption is almost absent in society). This data along with the country humanitarian context and the pushing crisis factors allow to understand that cash assistance comes with inherent risks in a country facing such a crisis.

Also, the existence of [REDACTED] in Afghanistan enables organizations such as [REDACTED] to facilitate the coordination of cash and voucher assistance within a humanitarian response. This Group has been active in Afghanistan since 2012. In 2014, it became an inter-cluster working group co-chaired by [REDACTED] to which [REDACTED] large country donors and the associations network sit as members and attend the coordination meetings.

Following the elements prior outlined, [REDACTED] would like to assure auditors that the needed internal controls are designed, implemented, and properly functioning (as the fluent instances communication to the donor under the project audited can sustain) guaranteeing program objectives without causing harm to the beneficiaries.

Secondly, regarding the **controls of distribution activities to prevent aid redistribution**, [REDACTED] notes that out of the 11 instances of alleged fraud, only one was initially discovered through [REDACTED] post distribution monitoring (PDM). [REDACTED] internal control is based on many mechanisms and not only the PDMs; which are an additional layer for potential reporting of fraud, but their purpose is not primarily to identify fraud allegations. Indeed, [REDACTED] controls lies mainly on 1) adequate channels of reporting (through the CRM, transparency line and the PDM), 2) on proactive investigation of risks (through its Transparency & Compliance team, MEAL and Program teams and the PDM), 3) immediate investigation of allegations. As such, PDMs are not to be seen as the sole or even main channels for reporting and/or investigations but rather as an additional layer where the accountability unit and the transparency unit collaborate when relevant. [REDACTED] would like to provide further clarification on the core purpose and objectives of PDM activities, and additional information related to the PDMs conducted under the audited award. The primary objective of PDMs is to monitor and report on the quality of project delivery and as such is not the preferent mechanism for receiving complaints from the field or investigation actively. Indeed, one case was initially raised to [REDACTED] through the PDM. This note confirms that the CRM remains the main reporting channel, sustained by the number of instances conveyed through it.

PDM assessments involve surveys with a random sample of beneficiaries, typically 1-2 months after the completion of a distribution. The focus of these surveys is to investigate several key programmatic areas, including the overall satisfaction of beneficiaries, the effectiveness of the distribution process, the alignment of support with identified needs, awareness levels regarding [REDACTED] Complaint Response Mechanism (CRM) system and immediate outcomes such as Food Consumption. The PDMs enable [REDACTED] to collect impacting and statistically meaningful mid-term data on the use of cash, or food security indicators so that [REDACTED] develops lesson learnt to improve future projects' design and implementation.

Nevertheless, given the exercise, it is likely that any case of widespread allegation of fraud, aid diversion or redistribution, or misconduct would be identified through the PDMs, which remains a sample-based survey. These exercises may be a gateway to receive complaints and identify potential allegations of aid diversion or redistribution as the questionnaire include specific questions on these matters, but this does not imply that PDM exercises will automatically receive complaints. *Please find for your reference in annex 3 an "Issue Letter" and the email loop of exchanges with BHA where [REDACTED] was requested to provide further details on the reported CRM cases of level 4 and 5 identified during the covered award. Going through the different written exchanges, it can be seen that BHA considered as closed the subject following the clarifications provided by [REDACTED]*

It is worth noting that PDMs are resource-intensive and require completion of a full research cycle (i.e. *planning, preparation, data collection, cleaning, analysis, and reporting*) and it is therefore neither recommended nor possible to conduct specific PDM programs. PDM costs must be approved by BHA at the proposal stage and as such, the need to conduct PDMs is proactively discussed and assessed with the donor in line with the activities and project framework. PDMs are systematically carried out for verification of project outputs, assessment of beneficiaries' satisfaction and evaluation of the distribution process effectiveness.

In the framework of the award, two PDMs were performed: one in September 2021, and one in July 2022 (*both reports enclosed in annex 4*). In both PDMs, it was reported that around 95% of participants were aware of the CRM mechanisms. In addition, the project endline assessment published in October 2022 denoted that "all beneficiaries were satisfied with the distribution process and 97% of respondents perceive the CRM system to be safe and accessible". This outcome demonstrates that most of the beneficiaries of the project are familiar and comfortable with the CRM and as such, [REDACTED] succeeded in promoting this reporting channel to efficiently detect fraud. PDMs results through final project report and endline report were shared to BHA.

It must then be highlighted that [REDACTED] monitors and trains regularly enumerators who are responsible for collecting data, especially on reporting for issues which should be communicated to the management when received through the PDM. If a fraud allegation is received, it shall be referred to the MEAL management and the [REDACTED]

On one hand and considering the elements provided and auditors recommendation, [REDACTED] is willing to increase the number of PDMs conducted in further projects as well as enlarging the size of participants surveyed in line with the project budget and risk assessment of the project activities within the operating context. On the other hand, [REDACTED] would like to emphasize that for all projects, PDMs and OSM activities are performed regularly and are in line with program objectives. This aims to ensure program quality and impact and increase the awareness of the CRM system, the latter being the preferred reporting mechanisms of any assistance irregularity. PDMs remain a complementary channel for identifying potential risks of aid diversion or protection issues.

In the different instances reported to BHA by [REDACTED] Investigation team, risk mitigation measures were agreed, put in place as deterring and preventing actions to counter the country inherent risk to cash distribution activities. Awareness communication to beneficiaries via feedback meetings, community

committee and monitoring visits was one of the preferred measures to address and prevent the risk of aid redistribution.

Then, it should be highlighted that at proposal stage, as a BHA requirement, a project/country risk mitigation assessment is undertaken. [REDACTED] Afghanistan flagged the “fraud, diversion and corruption” as a country inherent risk for which [REDACTED] engaged with BHA to widely advertise the Complaints Response Mechanism (CRM). After project completion, [REDACTED] strategy and mitigation measures can be assessed as positive and successful given the different number of instances identified and reported and the consequent prevention and corrective actions implemented.

Lastly, while there were some alerts, both the reporting mechanisms and oversight, controls and monitoring of the cash distribution activities enable to globally ensure and confirm that the aid was delivered to the intended beneficiaries and as such that the beneficiaries were protected from threats, intimidation and extortion from external stakeholders, such as community leaders.

Thirdly, **regarding the controls and monitoring of the subcontractors distributing cash to beneficiaries**, [REDACTED] would like to clarify there are specific and robust procedures for the management of implementing partners.

i) [REDACTED] has a well-established procedure in place to conduct due diligence on project partners. [REDACTED] carries out an implementation capacity assessment of its implementing partners before signing any partnership. Both [REDACTED] and [REDACTED], [REDACTED] partners on this award, have undergone thorough due diligence assessments. The due diligence included more than 100 points of control which involved a thorough review and evaluation of the governance and internal control system, financial management and implementation capacity of the partners. Based on the assessments, they were rated as low-risk partners, and as such, [REDACTED] moved on with the signature of grant agreements with these partners. This rating indicates that these partners met [REDACTED] criteria and standards for carrying out the activities of the project. This assessment also enabled [REDACTED] to identify rooms for improvement in the capacities of the partners which were translated into a Risk Mitigation Plan. The conclusion of the Due Diligences of both partners are in the summaries of the Risk Assessments attached to this response in **annex 5**.

ii) To ensure effective monitoring of subcontractors, [REDACTED] has implemented specific measures outlined in the grant agreements signed with [REDACTED] and [REDACTED]. These measures include regular reporting requirements, financial review procedures, and monitoring visits conducted by [REDACTED] relevant departments. These monitoring activities enable [REDACTED] to closely track the progress and performance of the implementing partners throughout the project implementation. Additionally, [REDACTED] is considering running additional ad hoc reviews of partners program activities, as reaching out beneficiaries through a random sample for following up on the effectiveness and efficiency of the assistance delivered. In addition, as a result of the initial analysis conducted with a risk approach through the due diligence, a series of specific mitigation recommendations in line with identified compliance weaknesses and gaps were designed and followed up during the partnership cycle for [REDACTED] and [REDACTED]. The Risk Mitigation plan of both partners is attached to this response in **annex 6**.

iii) [REDACTED] recognizes the importance of continuous training and capacity building for partners. As part of the outcome of the due diligence and controls, [REDACTED] Afghanistan organized training sessions for program and operation staff from both [REDACTED] and [REDACTED] in Kabul. These sessions were led by [REDACTED] Heads of Departments and covered various important topics to enhance the skills and knowledge. The topics included:

- Reporting and monitoring
- Financial requirements
- Logistic procedures

- Administrative procedures
- HR and recruitments
- █████ CoC
- Conflict of interest policy
- Anti-fraud, bribery, and corruption policy
- Anti-terrorism policy
- Data protection policy
- █████ Policy against Sexual Exploitation and Abuse
- Compliance requirements

These training sessions were essential not only for capacity building and professional development, equipping the staff of implementing partners with the necessary skills, knowledge to carry out their responsibilities effectively but also for enhancing their capacity to prevent and detect fraud within their organization. The written exchanges from █████ to its partners █████ and █████, where the supporting/training material was shared following the capacity building session which took place in June 2021 on support functions, internal organizational policies and sensitization on fraud, are attached to this response in **annex 7**.

Fourthly, regarding the █████ █████ **eligibility criteria and survey to qualify skilled and unskilled labor**, █████ would like to emphasize that beneficiary's selection was done through a regular socioeconomic vulnerability criterion as agreed at proposal and further contract stages with the donor. As the objective of the program was to provide support to vulnerable households in terms of food security as such, vulnerability criteria had precedence over capacity ones. Nevertheless, █████ Afghanistan Program team has recently enhanced the quality of the █████ selection, additional questions have been included in its █████. There are specific skilled tailored questions which have been added in the survey: the skill labor assessment is now done in two parts, vulnerability, and skills. The vulnerability for which the participants must meet a minimum set of vulnerability criteria to qualify are based on economic factors, such as not receiving any cash or income support during the last 3/6 months. These questions are coupled with an assessment of knowledge/capacity/experience that covers physical ability, willingness, sufficient literacy to deliver tasks, technical knowledge. The aim is to extent this approach to the rest of ongoing and upcoming projects.

Fifthly, regarding the █████ █████ the follow-up of the delivered assistance was guaranteed via the PDMs, OSMs and CRM system, including calls/surveys to some final beneficiaries for whom the aid was received initially via an identified proxy.

Furthermore, and in addition to the controls detailed above, █████ would like to underscore its adherence to 2 CFR 200.303, as █████ counts with a robust internal control structured at different levels as below.

█████ anticipates and responds to the challenges of complex operational environments through a proactive risk management approach. Risks are assessed and managed at various levels:

1. At the 2 governance levels:
 - a. By the associative governance (General Assembly, Board of Directors; Bureau of the Board of Directors, Sub-committees of the Board of Directors: Risk & Audit Committee, Security Committee, Safeguarding & Code of Conduct Adherence Committee, Remuneration Committee);
 - b. By the organisational & operational governance (CEO, Executive Committee, Directors' Committee, Operational Risk committee);
2. At the 3 field operational levels:
 - a. Country level;
 - b. Area level;
 - c. Project level

three lines of defense are as follows:

1. Management control: the first line of defense is accountable for day-to-day operational management and responsible for control evaluation and risk reduction.
2. Management risk monitoring and oversight: the second line of defense oversees and facilitates the implementation of risk management processes and supports the first line of defense.
3. Independent control: the third line of defense ensures independent control by evaluating the effectiveness of internal systems and controls and their implementation through its internal Transparency, Compliance & Investigation Department.

In addition, developed and enforced a system of verifications and checks prior to commitment, during implementation, and after activities are concluded:

1. Prior: due diligence, record verifications, reference taking, selection process
2. During: Follow-up, control, training & reporting
3. After: Internal evaluations of the project (quality, effectiveness and impact), lessons learnt and experience sharing
4. Ad hoc: Programmatic spotchecks, internal audit, compliance reviews, management of complaints and investigations and external audits

At field operational levels, risks are discussed at the project development phase and documented into the Project Monitoring Framework, document which is updated and reviewed on a monthly basis. Program staff monitor and report upon the mitigation of all associated risks that may affect the delivery of humanitarian activities related to the project.

Plus, as the 2 CFR 200.303 states in its paragraph d): “the entity must take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings” and indeed engagement has been met as the fluent and timely exchanges with the donor can sustain.

For the above reasons, not only applied its own effective internal control system and procedures in the course of this award but also complies with the terms and conditions of the Federal awards to prevent and detect fraud and abuse on beneficiary cash distributions. Thus, is kindly asking the auditors to reconsider and remove this internal control finding from the audit final report.

- **Finding 2023-02: Lack of Support Documenting Vendors’ Receipt of Cash Payments for Food**

Management response:

firmly contests this whole finding and would like to bring further clarification on the food allowance expenditures.

Firstly, is committed to upholding the rights of employees and ensuring strict compliance with legal obligations, including Afghanistan's labor law (in **annex 8**). According to the provisions outlined in the country labor law, it is mandatory for employers or entities operating in Afghanistan to provide food allowances to their employees. The provision of food allowances to its employees is not only a legal obligation but also a crucial staff benefit.

Secondly, would like to bring the attention on the approved project budget, as the costs questioned were foreseen under the support chapter under “Fringe Benefit-Food Allowance” category. Thus, these

costs have been properly planned as a benefit to the support and program staff. This food allowance was distributed in the different [REDACTED] Afghanistan country offices, as it is confirmed by the project budget lines object of this finding. This was also stated in the budget narrative of the project where it was explained that the budget was either for food (i.e. canteen) or subsistence allowance. **Then, the costs charged under this budget line do not strictly fall under procurement related procedures and as such,** the supporting documentation to prove the purpose of the expense is different than detailed in [REDACTED] finance and logistics manuals for supplier payment procedures. When [REDACTED] provides food allowance or pays staff salaries, [REDACTED] has no right to request from its employees to disclose how they used the funds and benefits as it must be a free arbitration from the employee. This case here falls exactly under this scheme.

Thirdly, because of the nature of purchasing daily fresh food items from small local markets and prevalence of the informal sector, many vendors may not have the capacity to provide invoices or formal documentation. Despite all of this, it must be highlighted that vendors used can be identified and payment trackable for a total of 21,089 USD where the selected suppliers stamped the daily purchase bills. The signatures of the staff benefiting from the food allowance are also shown on the vouchers/attendance sheets for a total of 22,240 USD. Both evidence on the supporting documentation enable [REDACTED] to guarantee the traceability of the expenditures, including the cash disbursement/receipt and use of the costs for its final purpose.

Fourthly, to comply with the procedures and prevent the associated risks while ensuring proper control and oversight of food allowance expenses, [REDACTED] Afghanistan has implemented an internal invoice system called the "Daily Purchase Bill." This system includes a structured food allowance memo (attached in **annex 9**) that is approved at the country level by authorized personnel. [REDACTED] support departments are responsible for conducting timely compliance reviews of documentation associated with food allowance costs. This ensures completeness, compliance with the approved memo and effective control measures. Internal controls on food allowances expenditures are performed as below:

- The Administration Department conducts daily quality checks on procured food items to ensure they meet required standards. They verify the completeness of accompanying documentation, such as daily purchase bill for items, quantity, and attendance records, ensuring adherence to country-approved food allowance norms and established procedures.
- The Logistics Department is responsible for verifying and validating fresh food purchase documents, including order forms, daily purchase bills, and purchase orders. Their thorough review of quantity and unit price as per the expectations and specifications of the order and calculation process ensure accuracy and adherence to policy and guidance.
- The Finance Department handles the validation and approval process for fresh food purchase documents by ensuring that appropriate validation is obtained from relevant [REDACTED] authorized people, cross-checking the daily purchase bills against the purchase orders to ensure accuracy, and validating the involvement of the correct departments before clearing the payments.
- The [REDACTED] department conducts ad hoc verifications on projects supporting documentation, including fresh food expenses, through the Monthly Compliance Review. This ensures a thorough review of the exhaustiveness and compliance of the costs incurred.

In addition, the attestation provided by the cooks allows to better understand and track the whole traceability of the food expenses costs. It does also confirm that the food purchased is effectively delivered and utilized in providing meals for the staff members and that the costs were necessary for the action. These attestations from the cooks are attached to this response in **annex 10**.

By assigning distinct roles and responsibilities to departments to maintain a robust system of checks and segregation of duties, [REDACTED] ensures that all fresh food purchases are accurately documented, validated, and aligned with both [REDACTED] organizational procedures and policies and BHA's guidelines (i.e.. 2 CFR 200.403 and 2 CFR 200.400).

Finally, [REDACTED] Afghanistan has started an internal reflection process to enhance the internal controls related to these expenses. The procedures and documentation related to food allowance expenses will be streamlined and standardized to establish consistent practices that can be uniformly applied in all country offices.

In light of the elements provided above and given that these costs were necessary, reasonable, incurred specifically for the action and supported by documentation, [REDACTED] kindly requests the auditors to reexamine and reconsider this finding as an internal control deficiency rather than a financial finding.

- **Finding 2023-03: Salary Payments in Excess of Contracted Rates**

[REDACTED] Management response:

[REDACTED] contests auditors finding and would like to bring further clarification on the payment of salaries, its correct calculation as well as its conversion from USD to AFN.

The USD salary in the contract shall be considered as *indicative*. Indeed, it is mentioned in each staff's contract, a "XXX USD" amount followed by "*will be converted in AFS as per [REDACTED] internal rule*", please refer to a contract staff as an example in **annex 11** (p.1, Article 1.2). That clause reflects that on [REDACTED] side, the actual salary amount engaged to be paid to the staff *is not any USD amount, but its AFN equivalent as per DAB rate, as mandated by the national legal framework, the Afghanistan Tax Manual, promulgated by the country Ministry of Finance, in May 2010, (and available in annex 12, with reference to its Article 4, on Tax Calculation, from where it can be understood that the HR department will convert the staff salary from USD to AFN based on the currency exchange rate provided by Da Afghanistan.* Being illegal to pay salaries in foreign currency in Afghanistan.

Having an informative USD base for the salaries for the staff was decided, even if the salary would effectively be paid in AFN, to avoid [REDACTED] staff bear any losses in their purchasing power because of USD/AFN fluctuations over the time and given the volatility of the AFN currency. However, technically the contractual amount to be paid and then to be considered here shall be equivalent AFN at DAB rate.

Therefore, the payroll analysis (Excel file available in **annex 13**) is comparing AFN amount to be paid to the staff (from USD to DAB Rate AFN) as per [REDACTED] contractual engagements with them vs amount reported in AFN to BHA (as [REDACTED] must report expenses in the currency they were made). This result in a 1,783.43 AFN variance (approximately equivalent to **20 USD**) implied by the fact that [REDACTED] does not pay "unit" afghanis, as [REDACTED] have no coins. Therefore, the salaries payment is rounded to nearest 10's unit. Kindly refer to [REDACTED] figures in the Excel "Payroll Analysis", summary tab in annex 13.

The columns highlighted in yellow in the referred file detail the accurate calculation of the salary and its conversion from USD to AFN. It does include:

- 1) The salary in USD as per the contract of the staff
- 2) The medical allowance of [REDACTED] USD per month
- 3) Conversion rates to be taken into consideration for (i) the payment of the salary (from USD to AFN), (ii) the conversion into USD for the transaction list/financial reporting:

- (i) Exchange rate used for the payment of the salary: According to income tax manual article 4 (available in **annex 12**, HR department converts staff salary from USD to AFN based on rate Da Afghanistan Bank (<https://www.dab.gov.af/exchange-rates>) to comply with the national regulations. Salaries are paid in AFN.
- (ii) The conversion into USD for the transaction list/financial reporting: As per the principle of accounting consistency method, accounting principles applied by [REDACTED] for the financial reporting should remain consistent globally. According to this principle, as stated in [REDACTED] [REDACTED] which is the [REDACTED] official monthly exchange rates, is the reference exchange rate used by [REDACTED]. This principle ensures that the financial information is reliable, comparable, and transparent over time. This exchange rate is used to convert the salaries paid in AFN to USD in the financial reports submitted to BHA.

Contracts' modifications have also been pasted in the payroll analysis file for your review.

So technically, [REDACTED] has been reporting to BHA the salaries effectively paid (and effectively contracted with the staff), and those have then been then converted in USD using Info Euro exchange rate in light with [REDACTED] internal procedures (find in **annex 14** the [REDACTED] Global Finance Manual in that sense). It convenes to highlight that this exchange rate procedure with the country national considerations has not been object of any concern prior by other donors, including SIGAR.

Therefore, the methodology used to claim that the salaries of the staff sampled were overpaid was not accurate as it did not consider the obligation to convert the salaries from USD into AFN as per the national fiscal law enforced in Afghanistan.

In light of the previous elements, [REDACTED] request to auditors to kindly reconsider the full finding amount as an eligible cost.

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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For the Period of October 1, 2020, through August 30, 2022

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

[REDACTED] disagreed with all the findings and below is our rebuttal to [REDACTED] response.

Finding 2023-01 – [REDACTED] disagreed with the finding stating that there should be only 136 beneficiaries involved, not more than 160. In addition, [REDACTED] claimed that it implemented a wide range of controls which enabled them to detect and prevent the risk of fraud in its program and operations, aimed at ensuring both reactive and proactive control mechanisms. The internal control system developed and implemented involves 1) assessment of the most efficient modalities to meet the humanitarian needs; 2) proactive mechanisms to reduce the risk of aid redistribution for cash distributions; 3) monitoring and internal controls of subcontractors and partners; 4) appropriate identification and selection of beneficiaries and monitoring of [REDACTED] activities; and 5) controls for third-parties receiving the assistance on behalf of the beneficiaries who are unable to attend the distribution.

Auditor's Rebuttal

The number of beneficiaries we stated in the condition includes beneficiaries who were reported to [REDACTED] by other beneficiaries. In addition, the 38 duplicate fingerprints under Condition (b) may involve two beneficiaries in each instance.

- 1) **[REDACTED] controls surrounding the assessment of the most efficient modalities to meet the humanitarian needs.** [REDACTED] stated that the program objectives were to provide cash support to the beneficiaries and that corruption factors were being considered. Additionally, they noted the program objective is agreed upon and approved by the funding agency, and that there were multiple layers and sufficient controls in place in carrying out the program objectives. Conrad understands [REDACTED] has controls developed in this area, nevertheless, despite the controls put in place, the programs objectives were not fully realized as beneficiaries were harmed when they were subject to extortion and forced aid redistribution. As [REDACTED] pointed out in its management response, "corruption risk is prevalent in Afghanistan and as such may affect the program." Given that [REDACTED] acknowledged the risk of corruption is prevalent and that [REDACTED] is responsible for carrying out the program, they should have developed and implemented sufficient controls to mitigate corruption, fraud, waste, and abuse.
- 2) **[REDACTED] proactive mechanisms to reduce the risk of aid redistribution for cash distributions.** [REDACTED] stated there were sufficient controls including CRM, PDM, training to enumerators, follow up on surveys, community feedback, etc. Conrad noted these controls were not sufficient as the program resulted in beneficiary harm. Additional controls focused more closely on forced re-distributions and aid diversions should be developed. As [REDACTED] stated in the management response, [REDACTED] is willing to increase the number of PDS and sample a large size of participants. Conrad believes this additional layer of controls can help minimize forced re-

(Continued)

[REDACTED]

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distributions and aid diversions. However, additional controls are needed to minimize beneficiary harm to the lowest level possible.

- 3) **[REDACTED] monitoring and internal controls of subcontractors and partners.** [REDACTED] stated that it has well-established procedures in place to conduct due diligence on project partners; specific monitoring measures were outlined in the subcontractor's grant agreements; and continuous training and capacity building for partners was provided. Despite the implementation of these measures, the subcontractors did not properly conduct eligibility verifications, claimed reimbursement for cash payments they did not make, and allowed falsified fingerprints. As such, we believe additional layers of controls are necessary to ensure subcontractors are qualified and properly vetted, and that [REDACTED] should develop detailed monitoring controls for overseeing subcontractors.
- 4) **[REDACTED] response to appropriate identification and selection of beneficiaries and monitoring of [REDACTED] activities.** Subsequent to the period under audit, [REDACTED] implemented procedures including additional questions on the survey regarding participant's work history and labor skills. Since additional questions and controls have been developed, no further rebuttal is necessary.
- 5) **[REDACTED] response to controls for third parties receiving assistance on behalf of the beneficiaries who are unable to attend the distribution.** [REDACTED] believed there were sufficient controls via its different control and monitoring mechanisms. However, evidence of follow-up calls to beneficiaries whose aid was received by others on their behalf was not maintained.

Based on our rebuttals above, our findings and recommendations remain unchanged.

Finding 2023-02 - [REDACTED] disagreed with the finding stating that 1) according to Afghanistan's labor laws, it is mandatory to provide employee's food allowances; 2) it was approved in the budget as Fringe benefits cost category; 3) purchasing daily fresh food items from small local markets and prevalence of the informal sector, therefore many vendors may not have the capacity to provide invoices or formal documentation; and 4) [REDACTED] implemented an internal invoice system call the Daily Purchase Bill that is structured to be reviewed and approved by authorized personnel. Also [REDACTED] provided an attestation from the cook at each of their office in Afghanistan attesting that the food purchases were accurate.

Auditor's Rebuttal

Conrad understands the food allowance is an allowable cost and was approved in the budget. However, [REDACTED] did not have adequate procedures and practices in place to monitor the costs associated with the

(Continued)

[REDACTED]

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allowance. The CFR requires all costs to be adequately documented and supported. [REDACTED] stated that with some local vendors, invoices cannot be obtained, and so they used an internally generated invoicing system called the Daily Purchase Bill. However, the Daily Purchase Bill that Conrad reviewed did not have sufficient controls to meet the CFR requirements as described in the finding. Additionally, [REDACTED] response highlights attestations provided by the cook at the end of the audit fieldwork. These attestations are insufficient as they were given years after the purchases were made. As such, our findings and recommendations remain unchanged.

Finding 2023-03 – [REDACTED] disagreed with the finding stating that the employment contract stated that USD amount is considered indicative, that the contract also included the language, "will be converted into AFS as per [REDACTED] internal rule," and that [REDACTED] had properly applied the conversion rate to USD when reported to the US Government.

Auditor's Rebuttal

The issue here is directly related to what [REDACTED] is charging the US government. The employment agreements are stated in dollars as such, the amount charged to the US government is simple, as it should reflect the amount on the employment contract. For example, if the employee's salary is listed as \$1,000 per month, then \$1,000 should be claimed to the US Government and no conversion methodology should be applied. However, if the employee's salary rate is listed as 75,000 AFS, then the conversion methodology should be applied to convert to USD before claiming the costs to the US Government. As such, our findings and recommendations remain unchanged.

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SIGAR's Mission

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