

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 24-25 Financial Audit

USAID's

Incurred by

: Audit of Costs

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.



JUNE
2024



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 3, 2024

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

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 an agreement awarded by the U.S. Agency for International Development (USAID) to support the [REDACTED]

[REDACTED]¹ The agreement's purpose was to [REDACTED]

Conrad reviewed \$22,500,000 in costs charged to the agreement from August 1, 2021, through March 31, 2023. 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 agreement officer at USAID:

1. **Determine the allowability of and recover, as appropriate, \$1,831,710 in questioned costs identified in the report.**
2. **Advise [REDACTED] to address the report's six internal control findings.**
3. **Advise [REDACTED] to address the report's six 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 March 15, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for 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-274)

¹ The agreement number is [REDACTED].

[REDACTED]

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

Awarded by the United States Agency for International Development
to support the [REDACTED]

[REDACTED]

of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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March 22, 2024

Board of Directors
[REDACTED]

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

Conrad LLP (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 (Agreement) by the United States Agency for International Development to support the [REDACTED] of Afghanistan, for the period August 1, 2021 through March 31, 2023.

On January 16, 2024, we provided the Special Inspector General for Afghanistan Reconstruction (SIGAR) with a draft report reflecting our audit procedures and results. [REDACTED] received a copy of the report on January 31, 2024 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 the Special Inspector General for Afghanistan Reconstruction and [REDACTED] responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA
Partner

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Background

On September 24, 2021, the United States Agency for International Development (USAID), Office of U.S. Foreign Disaster Assistance (OFDA) awarded Grant Agreement No. [REDACTED] (Agreement) to [REDACTED] to support the [REDACTED] [REDACTED] of Afghanistan. In 2021, USAID combined OFDA with the Office of Food for Peace to create the Bureau of Humanitarian Assistance (BHA).

The purpose of the Program was to contribute to reducing mortality and morbidity in the [REDACTED] targeted provinces of Afghanistan. Working through a consortium with [REDACTED] and the [REDACTED], [REDACTED] aimed to maximize the sectoral and geographical scope of the integrated approach that partners implement separately, and to enhance the quality and impact of the partners' humanitarian action by combining resources, complementary expertise, and access. [REDACTED] intervention included, among other activities, the extension of quality health care services, including primary healthcare and [REDACTED]; the provision of emergency life-saving trauma care; the extension of access to safe drinking water; and health care system support through rehabilitation of identified healthcare facilities. [REDACTED] stated objectives for the Program are as follows:

- To contribute to a reduction in mortality and morbidity by increasing access, coverage, use, and quality of basic primary health care services, including trauma care.
- To contribute to a reduction in mortality and morbidity by increasing access, coverage, use, and quality of Integrated Management of Acute Malnutrition.
- To provide life-saving protection assistance in a timely and efficient manner.
- To contribute to a reduction in mortality and morbidity by increasing access, coverage, use, and quality of water, and sanitation and hygiene services.
- To contribute to a reduction in mortality and morbidity by providing basic livelihoods restoration to vulnerable households affected by violence, conflict, and natural disasters.

The initial award amount was \$7,500,000, for the period of performance from August 1, 2021, through September 30, 2022. Two modifications were made to the agreement which increased the total funding to \$22,500,000 and extended the period of performance from September 30, 2022 through March 31, 2023. See the *Summary of Agreement* below.

[REDACTED]

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

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Summary of Agreement

Agreement Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
[REDACTED]*	\$7,500,000	08/01/21	09/30/22	2	\$22,500,000	03/31/23

* - Indicates the award is a close-out.

[REDACTED] is a non-profit, non-governmental organization headquartered in [REDACTED] [REDACTED] works in Africa, Asia, Europe, and the Middle East, and [REDACTED] aims to [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 agreement, as mentioned above, of [REDACTED] Special Purpose Financial Statement (SPFS) for revenue received and costs incurred under the agreement totaling \$22,500,000 for the period of performance from August 1, 2021, through March 31, 2023.

Objectives, Scope, and Methodology

Audit Objectives

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

- *Special Purpose Financial Statement* – Express an opinion on whether [REDACTED] SPFS for the agreement 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 agreement and generally accepted accounting principles or other comprehensive basis of accounting.

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

- *Internal Controls* – Evaluate and obtain sufficient understanding of [REDACTED] internal controls related to the agreement, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether [REDACTED] complied, in all material respects, with the agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the agreement 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 revenue received and costs incurred during the period of August 1, 2021, through March 31, 2023, totaling \$22,500,000 under the agreement. Our testing of the indirect cost charged to the agreement 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 July 25, 2023, with representatives of [REDACTED] Conrad, SIGAR, and USAID/BHA 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

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

procedures. We gained an understanding of [REDACTED] through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:

- Grant Agreement and modifications.
 - Any regulations that are specific to the agreement's requirements, such as 2 CFR 200 Subpart E Cost Principles, 22 CFR 228 Rules for Procurement of Commodities and Services Financed by USAID, Cost Principles, and Audit Requirements for Federal Awards, USAID Automated Directives System (ADS) Chapter 310, Source and Nationality Requirements for Procurement of Commodities and Services Financed by USAID.
 - 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 agreement, 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 agreement;
- 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 Agreement

We reviewed [REDACTED] internal controls related to the agreement to gain an understanding of the implemented system of internal control to obtain reasonable assurance of [REDACTED] financial reporting

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

Compliance with the Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether [REDACTED] complied, in all material respects, with the agreement requirements, 2 CFR 200, 22 CFR 228, ADS Chapter 310, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the agreement 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, engagements, or assessments from [REDACTED], SIGAR and USAID/BHA, as well as conducted a search online of various governmental websites to determine if there were any findings and recommendations that could have a material effect on [REDACTED] SPFS. See the *Status of Prior Audit Findings* section on page 45.

Exit Conference

An exit conference was held on December 14, 2023, via conference call. Participants included representatives from Conrad, [REDACTED] [REDACTED] Sub awardees, SIGAR, and USAID/BHA. 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 a modified opinion on the fairness of the presentation of the SPFS due to the aggregated questioned costs which are material to the SPFS.

We identified \$1,831,710 in total questioned costs, which comprised \$11,306 in ineligible costs and \$1,820,404 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the agreement's provisions or applicable laws and regulations, or not related to the agreement. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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

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*.

Internal Controls

Our audit identified six (6) internal control findings. One (1) internal control finding is considered to be a material weakness and five (5) internal control findings are considered to be significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 18.

Compliance

The results of our testing identified six (6) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 20.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. There were no instances of fraud or alleged fraud identified.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2024-01	Internal Control – Material Weakness and Non-compliance	[REDACTED] based costs on budget estimates and lacked an equitable allocation methodology	\$ -	\$ 1,239,063	\$ 1,239,063
2024-02	Internal Control - Significant Deficiency and Non-compliance	Funds transfers services were not procured and were not sufficiently documented to demonstrate it was related to this Program.	-	331,917	1,570,980

(Continued)

[REDACTED]

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

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

2024-03	Internal Control – Significant Deficiency and Non-compliance	Insufficient subaward monitoring	9,094	220,529	1,800,603
2024-04	Internal Control – Significant Deficiency and Non-compliance	Travel costs charged to the Program were not sufficiently supported	-	23,313	1,823,916
2024-05	Internal Control – Significant Deficiency and Non-compliance	Ineligible costs were charged to the Program	2,212	-	1,826,128
2024-06	Internal Control – Significant Deficiency and Non-compliance	Inconsistent foreign exchange rates were used to incur costs billed to USAID	-	5,582	1,831,710
Total Questioned Costs			\$ 11,306	\$ 1,820,404	\$ 1,831,710

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Review of Prior Findings and Recommendations

We requested copies of prior audit reports and engagements from [REDACTED], SIGAR, and USAID/BHA pertinent to [REDACTED] activities under the agreement. We identified three (3) prior audit reports that contained 11 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. We concluded that [REDACTED] had taken adequate corrective actions on six (6) of the 11 findings and the other five (5) findings were not adequately addressed and are repeated under this audit. See *Status of Prior Audit Findings* on page 45 for a detailed description of the prior findings and recommendations.

Summary of [REDACTED] Responses to Findings

The following represents a summary of the responses provided by [REDACTED] to the findings identified in this report (the complete responses received can be found in *Appendix A* to this report):

- (1) **Finding 2024-01:** [REDACTED] disagreed with this finding and noted that [REDACTED] allocation methodology is equitable and transparent.
- (2) **Finding 2024-02:** [REDACTED] disagreed with this finding and noted that competitive bid analysis could not be maintained due to safety concerns and fund transfers are done from a cash pooling system.
- (3) **Finding 2024-03:** [REDACTED] disagreed with this finding and provided responses from their sub awardees.
- (4) **Finding 2024-04:** [REDACTED] disagreed with this finding and noted that [REDACTED] Expatriate Guide does not require a travel request form.
- (5) **Finding 2024-05:** [REDACTED] disagreed with this finding and noted the transactions identified as duplicates were for two different lease agreements.
- (6) **Finding 2024-06:** PUI disagreed with this finding and noted that foreign exchange rates are calculated using the monthly exchange rate from three different sources. In addition, [REDACTED] disagreed with the currency conversion issue and noted that the devaluation of local currency made it impossible to fix a price in AFN for more than a few days or week.

(Continued)



**INDEPENDENT AUDITOR'S REPORT
ON THE SPECIAL PURPOSE FINANCIAL STATEMENT**

Board of Directors
[REDACTED]

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of [REDACTED] and the related notes to the Special Purpose Financial Statement, with respect to the Grant Agreement No. 7 [REDACTED] (Agreement) awarded by the United States Agency for International Development (USAID) to support the [REDACTED] Afghanistan, for the period of August 1, 2021 through March 31, 2023.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of August 1, 2021 through March 31, 2023, in accordance with the terms of the Agreement and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR).

Basis for Qualified 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 [REDACTED] 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.

We identified \$1,831,710 in aggregated questioned costs resulting from the material weakness, and significant deficiencies in internal controls and non-compliance with the terms and conditions of the Agreement. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

(Continued)

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Basis of Presentation and Accounting

We draw attention to Note 1 and Note 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 [REDACTED] 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.

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.

(Continued)

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 March 15, 2024 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 Agreement, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [REDACTED] internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of [REDACTED], the United States Agency for International Development's Humanitarian Assistance Bureau and Office of United States Foreign Disaster Assistance, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 the United States Congress and the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Conrad LLP

Lake Forest, California
March 15, 2024

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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:						
Agreement [REDACTED]	\$ 22,500,000	\$ 22,500,000	\$ -	\$ -	\$ -	
Total revenues	<u>22,500,000</u>	<u>22,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	(4)
Costs incurred:						
Salaries	4,393,845	3,869,663	-	275,189	275,189	(A)
Fringe Benefits	[REDACTED]	[REDACTED]	-	-	-	
Travel and Transport	212,554	248,284	1,772	27,093	28,865	(B)
Equipment at or above \$5,000	138,811	60,015	-	-	-	
Program Supplies	4,840,113	5,141,335	-	591,135	591,135	(C)
Sub-awards and Contracts	10,453,788	10,450,506	8,518	206,564	215,082	(D)
Other Direct Costs	998,315	1,297,215	300	605,154	605,454	(E)
Indirect Costs	[REDACTED]	[REDACTED]	716	115,269	115,985	(F)
Total costs incurred	<u>\$ 22,500,000</u>	<u>\$ 22,500,000</u>	<u>\$ 11,306</u>	<u>\$ 1,820,404</u>	<u>\$ 1,831,710</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

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

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Notes to Special Purpose Financial Statement¹

(1) Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under Grant No. [REDACTED] for the period August 1, 2021, to March 31, 2023, with pre-award costs approved from OFDA. 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 Grant Agreement [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

Expenditures and revenue reported on the Statement are on the cash basis of accounting, and amounts are presented per the terms of the grant agreement. Such expenditures are recognized following cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

b. Foreign Currency Conversion Method

The Statement contains expenses translated into US dollars (USD). All expenses are converted into USD by using a calculated exchange rate, as per [REDACTED] accounting practices. [REDACTED] exchange rate calculation method is detailed in the Finance Procedure Manual in chapter 3.6.

(3) Revenues

Revenues on the Statement represent the amount of funds [REDACTED] received from USAID between August 1, 2021, and March 31, 2023, for a total amount of \$22,500,000 for allowable and eligible costs incurred under the agreement.

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

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Notes to Special Purpose Financial Statement¹

(4) Cost Incurred by Budget Category

The budget categories and associated amounts presented reflect the budget line items presented within the final, approved contract budget adopted as Grant No. [REDACTED] dated 09/27/2021.

(5) Outstanding Balance

The outstanding fund balance presented on the Statement represents the difference between revenues received and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the award and an amount less than \$0 would indicate that costs have been incurred.

(6) Program Status

Agreement No. [REDACTED] is now closed. The period of performance for the agreement expired on March 31, 2023.

(7) Indirect Cost

[REDACTED] has an approved NICRA which establishes the following indirect cost rates:

Type	EFFECTIVE PERIOD		INDIRECT COST RATES
	From	Through	Overhead
Provisional	1/1/2021	12/31/2021	[REDACTED]
Provisional	1/1/2022	Until Amended	[REDACTED]

(8) Subsequent Events

[REDACTED] has performed an analysis of the activities and transactions subsequent to the August 1, 2021, through March 31, 2023, period covered by the Statement. Management has performed their analysis through March 15, 2024.

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

[REDACTED]

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

[REDACTED]
of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Salaries

[REDACTED] reported a total of \$3,869,663 for Salaries for the period of August 1, 2021, through March 31, 2023.

During our testing of Salaries, we noted costs were allocated based on a methodology using budget projections and total funding from different donors, resulting in unsupported Salaries costs of \$275,189. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Travel and Transport

[REDACTED] reported a total of \$248,284 for Travel and Transport for the period of August 1, 2021, through March 31, 2023.

During our testing of Travel and Transport, we noted the following:

- Costs were allocated based on a methodology using budget projections and total funding from different donors, resulting in unsupported Travel and Transport costs of \$5,256. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs incurred lacked sufficient documentation to support the costs charged to the Program, resulting in unsupported Travel and Transport costs of \$21,837. See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report.
- Ineligible costs, such as penalties, were charged to the Program, resulting in ineligible Travel and Transport costs of \$1,772. See **Finding No. 2024-05** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in a total questioned Travel and Transport of \$28,865, consisting of \$27,093 in unsupported costs and \$1,772 in ineligible costs.

(C) Program Supplies

[REDACTED] reported a total of \$5,141,335 for Program Supplies for the period of August 1, 2021, through March 31, 2023.

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
Grant Agreement No. [REDACTED]
Lifesaving Integrated Health, Nutrition, Protection, and Water, Sanitation, and Hygiene (WASH)
[REDACTED]
of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

During our Program Supplies, we noted the following:

- Costs were allocated based on a methodology using budget projections and total funding from different donors, resulting in unsupported Program Supplies costs of \$587,500. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs incurred lacked sufficient documentation for verification and recalculation of the average exchange rate, resulting in unsupported Program Supplies costs of \$3,635. See **Finding No. 2024-06** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned Program Supplies costs of \$591,135, consisting of \$591,135 in unsupported costs.

(D) Sub-awards and Contracts

[REDACTED] reported a total of \$10,450,506 for Sub-awards and Contracts for the period of August 1, 2021, through March 31, 2023.

During our testing of Sub-award and Contracts, we noted costs incurred to the Program by Sub-awardee 1 and Sub-awardee 2 were not sufficiently monitored by [REDACTED], resulting in unsupported Sub-awards and Contracts costs of \$206,564 and ineligible Sub-awards and Contracts of \$8,518. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in a total questioned Sub-award and Contracts of \$215,082, consisting of \$206,564 in unsupported costs and \$8,518 in ineligible costs.

(E) Other Direct Costs

[REDACTED] reported a total of \$1,297,215 for Other Direct Costs (ODC) for the period of August 1, 2021, through March 31, 2023.

During our testing of Other Direct Costs, we noted the following:

- Costs were allocated based on a methodology using budget projections and total funding from different donors, resulting in unsupported Other Direct Costs of \$292,661. See

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

[REDACTED]

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

[REDACTED]
of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

Finding No. 2024-01 in the *Schedule of Findings and Questioned Costs* section of this report.

- Costs incurred lacked sufficient documentation to support the fund transfer fees charged to the Program. Additionally, [REDACTED] did not provide the competitive bid analysis for the money transfer agency that was paid the fund transfer fees, resulting in unsupported Other Direct Costs of \$310,900. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- Ineligible costs, such as penalties were charged to the Program, resulting in ineligible Other Direct Costs of \$300. See **Finding No. 2024-05** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs were overcharged to the Program because [REDACTED] applied foreign exchange conversion to costs that should not be converted, resulting in unsupported Other Direct Costs of \$1,593. See **Finding No. 2024-06** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in a total questioned Other Direct Costs of \$605,454, consisting of \$605,154 in unsupported costs and \$300 in ineligible costs.

(F) Indirect Costs

[REDACTED] reported a total of [REDACTED] for Indirect Costs for the period of August 1, 2021, through March 31, 2023.

The indirect costs associated with questioned costs identified in Notes A, B, C, D and E above resulted in total unsupported indirect costs of \$115,269 and total ineligible indirect costs of \$716. This resulted in total questioned indirect costs of \$115,985.

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]

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] (Agreement) in support of the [REDACTED] of Afghanistan for the period of August 1, 2021 through March 31, 2023. We have issued our report thereon dated March 15, 2024 with a modified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of August 1, 2021 through March 31, 2023, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiencies.

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

(Continued)

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accompanying *Schedule of Findings and Questioned Costs*, as Finding 2024-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2024-02, 2024-03, 2024-04, 2024-05, and 2024-06 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 PUI's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Conrad LLP

Lake Forest, California
March 15, 2024

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
[REDACTED]

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] (Agreement) in support of the [REDACTED] of [REDACTED] of Afghanistan, for the period of August 1, 2021 through March 31, 2023. We have issued our report thereon dated March 15, 2024 with a modified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [REDACTED] Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed six (6) 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 2024-01, 2024-02, 2024-03, 2024-04, 2024-05, and 2024-06.

[REDACTED] Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part

(Continued)

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of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Conrad LLP

Lake Forest, California
March 15, 2024

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs

Finding 2024-01: [REDACTED] charged costs to the Program based on budget estimates and lacked an equitable allocation methodology

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

Condition: Conrad tested a combined 499 out of 29,487 transactions in the Salaries, Travel and Transport, Program Supplies, and the Other Direct Costs (ODC) cost categories representing \$2,585,696 out of a total of \$10,556,497 for these transactions to determine if the costs incurred under the Program were reasonable, adequately supported, allowable and properly approved. For costs that are shared among different programs in Afghanistan including salaries and other costs, [REDACTED] charged costs based on the proposed budget estimates. However, [REDACTED] did not provide any supporting documentation showing that actual shared costs incurred were accurate and/or the costs were based on an actual level of effort. [REDACTED] was unable to demonstrate that it had a reasonable and equitable allocation methodology to adequately charge shared costs across programs. Due to the lack of supporting documentation, we determined the following unsupported costs:

SPFS Cost Category	Number of Instances	Unsupported Costs
Salaries	325	\$ 275,189
Travel and Transport	5	5,362
Program Supplies	1	587,500
Other Direct Costs	27	294,254
Total:	357	\$ 1,162,305

Criteria:

[REDACTED] Procedure for the Allocation of Shared Costs, Section 1, states in part:

“Allocation keys allow expenses to be allocated to donors up to a certain amount determined when the budgets are created. For a specific budget line, the calculation of this amount is based on fair allocation and can be traced back to the estimated total amount to be spent...”

The numerator is calculated based on the budget of Aid for the project for which the key is being calculated...

The denominator is calculated based on the sum of the budgets of Aid for the projects affected by the cost to which the key applies (in other words the projects that will support the expense).”

[REDACTED] Finance Procedures Manual, Section 7, Allocation of Shared Costs, states in part:

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

“Defining an allocation method for shared costs allows us to distribute across budgets expenses that cannot be entirely attributed to one specific project. These costs must therefore be shared in a fair and transparent manner by donors (in other words, fairly distributed using an allocation key for each expense).”

2 CFR 200.430(i), Standards for Documentation of Personnel Expenses, states in part:

“(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed...”

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that ...

(C) The Non-Federal entity’s system of internal controls includes processes to review after-the-fact interim changes made to a Federal award based on budget estimates...”

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...

(g) Be adequately documented...”

2 CFR 200.405 (a), Allocable Costs, states in part:

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

(1) Is incurred specifically for the Federal award...”

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

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

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

Cause: [REDACTED] did not develop and document a method for allocating shared costs across programs and did not have a reasonable and equitable allocation methodology for allocating shared costs across programs. [REDACTED] method for allocating shared costs was based on budget estimates and not on actual costs incurred. In addition, [REDACTED] did not perform an after-the-fact review or provide documentation to demonstrate that (1) the budget estimates were accurate and adequately reflected costs charged and (2) costs were appropriately charged across programs to reflect the level of the work performed.

Effect: Lack of an adequate review of allocated shared costs and a system to keep track of actual level of effort increases the risk of the U.S. government overpaying the Program.

Questioned Costs: We identified \$1,162,305 in unsupported costs and \$78,572 in associated indirect costs, which resulted in \$1,240,877 in total questioned costs.

Please note for the amount questioned under the travel and transport category of \$106 and the associated indirect costs of \$7 and the other direct costs category of \$1,593 and the associated indirect costs of \$108, these costs have already been questioned in Finding 2024-04 and Finding 2024-06 respectively. Therefore, in the SPFS presentation, the amount in travel and transport of \$113 and in other direct costs of \$1,701 were not questioned again under this finding; instead, the net amount of \$1,235,169 is presented in the SPFS and Summary of Results section. However, even if these costs are supported under Finding 2024-04 or Finding 2024-06, they would still be questioned and should be refunded under this finding.

Recommendation:

- (1) We recommend that [REDACTED] provide additional support to demonstrate the accuracy of their cost allocations or return \$1,240,877 of unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop and implement an after-the-fact system control, such as a timekeeping system, that can record and retain the actual level of effort spent on different programs and use the actual level of effort to allocate other personnel expenses that cannot be easily determined when the costs benefit two or more projects.
- (3) We recommend that [REDACTED] develop and implement additional policies and procedures to review interim or estimated budget allocations and create a reasonable and equitable allocation methodology to ensure that other shared costs charged across programs are proportionate to actual benefits associated with the programs.

(Continued)

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

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

Finding 2024-02: Funds transfers services were not procured and were not sufficiently documented to demonstrate it was related to this Program

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

Condition: Conrad tested 34 transactions out of 2,654 transactions in the Other Direct Costs (ODC) cost category, representing \$322,054 out of a total of \$1,297,215 for these transactions to determine if the costs incurred under the Program were reasonable, adequately supported, properly approved, and allowable.

Out of the 34 samples selected, four (4) samples pertained to fund transfer fees for transferring funds into Afghanistan using a money transfer agency (MTA). During our testing, we noted all four (4) samples lacked support to show that a competitive bid analysis was completed before selecting the MTA that was used for the fund transfer. In addition, [REDACTED] has multiple projects running concurrently in Afghanistan, there was no evidence to clearly demonstrate the funds transferred were to fund this Program only.

Due to the number of errors identified in our original samples selection pertaining to fund transfer fees that lacked proper procurement and sufficient documentation, we expanded the sample to include all fund transfer fees that had the same description in the general ledger. We found an additional 39 instances during our audit period from March 2022 through September 2022 where fund transfer fees were charged to the Program. The expanded sample selection increased the total number of instances to 43, representing total unsupported cost of \$310,900 out of the total \$1,297,215 for this finding.

Criteria:

Money Transfer Agency Procedure, Section 3, Selection, states in part:

“Before to select an entity, a comparison grid needs to be filled up (Annex_MTA_Comparison grid) by the mission for at least two entities.”

Procurement Guidelines, Section 3.5, Derogations, states in part:

“The logistician has to request derogations when he/she thinks or realizes that it will not be possible to respect the standard procurement procedures or a particular donor rule.

The request has to be fully justified. For example, a specific context, a security situation can be accepted as a relevant justification. In any cases, the justification to request derogation cannot have any ties with criteria/considerations linked with the organization internal factors.”

Procurement Guidelines, Section 4.1, General Principles, states in part:

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

“For all purchases, no matter the procedure followed, the below-listed basics have to be followed:

4.1.1 Supplier Selection Criteria

The criteria for the selection of tenderers or candidates are:

-Professional capacity (Technical expertise, quality of work quality of documents)

-Authorization to perform their activities legally

-Financial capacity (such as the payment method: cash, check, credit or transfer)

Services (such as the payment conditions: before delivery, after delivery, after warranty period, partial payment)”

2 CFR 200.303, Internal Controls, states in part:

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

2 CFR 200.403 (i), 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...

(g) Be adequately documented...”

2 CFR 200.404, Reasonable Costs, states:

“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 where the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

(c) Market prices for comparable goods or services for the geographic area.

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

- (d) *Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.*
- (e) *Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."*

Cause: [REDACTED] has a procedure to evaluate the MTA prior to securing their services using a competitive bidding analysis; however, [REDACTED] did not follow this procedure. [REDACTED] stated that the lack of procurement activity was due to the fall of the banks in Afghanistan during August 2021. At that time, [REDACTED] was able to transfer funds using only the MTAs because banks were unable to provide this service. [REDACTED] did not provide a reason that they lacked documentary support for funds transferred and the related fees Program.

Effect: Due to the lack of procurement and competitive analysis for the MTAs and no supporting documentation to show the funds were used for this Program, there is a risk the U.S. Government may have overpaid for goods and services.

Questioned Costs: We identified \$310,900 in unsupported costs and \$21,017 in associated indirect costs, which resulted in \$331,917 in total questioned costs.

Recommendation:

- (1) We recommend that [REDACTED] provide evidence showing the funds related to the fund transfer fees were used for this Program and the transfer fee rates for the MTAs were competitive or return \$331,917 of unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop and implement management oversight to ensure staff follow [REDACTED] MTA policy to ensure MTAs are properly procured and a competitive analysis is conducted.
- (3) We recommend that [REDACTED] implement policies and procedures to ensure that documentation clearly identifies the project to which each fund transfer pertains.

(Continued)

[REDACTED]

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

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

Finding 2024-03: Insufficient sub-award monitoring

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

Condition: Conrad tested 483 transactions out of 14,620 transactions in the Sub-awards and Contracts cost category, representing \$2,217,411 out of a total of \$10,450,506 for these transactions to determine if the costs incurred under the Program were reasonable, adequately supported, properly approved, and allowable.

During our testing we noted that [REDACTED] incurred costs on behalf of two sub awardees, however, [REDACTED] did not sufficiently monitor, and review costs charged to the Program by their sub awardees. We noted the following issues related to sub-awardees:

Description	Cost Category	Instances	Ineligible Costs	Unsupported Costs
Sub awardee 1				
1) Insufficient proof of payment				
Proof of payment provided was for the net of tax amount. However, the costs incurred to the general ledger were at the gross amount. No support was provided to show the tax amounts were paid.	Housing Allowances	6	\$ -	\$ 902
	Operation	1	-	1,375
	Supplies	1	-	49
Totals:		8	\$ -	\$ 2,326
2) Inconsistent foreign exchange rates were used				
When recording costs to the general ledger, the costs were converted using a different foreign currency exchange rate than the foreign currency exchange rate used to convert at the time of payment. This resulted in an overcharge to the Program.	Personnel and Fringe	13	\$ -	\$ 260
Totals:		13	\$ -	\$ 260
3) Insufficient support for allowance				

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

Missing allowance policy to support the allowance rates paid to the employees.	Personnel and Fringe	25	\$ -	\$ 2,169
Totals:		25	\$ -	\$ 2,169
4) Allowance paid prior to effective date of allowance policy				
Allowances were paid to employees prior to the date the allowance policy became effective.	Personnel and Fringe	13	\$ -	\$ 1,223
Totals:		13	\$ -	\$ 1,223
5) Salary amount paid exceeds amount in employment agreement				
The gross salary amount charged to the Program for the employee exceeded the salary amount stated in the employment agreement.	Personnel and Fringe	8	\$ -	\$ 381
	Supplies	2	-	554
Totals:		10	\$ -	\$ 935
6) Missing procurement documentation				
No procurement documentation was provided for the procurement of the travel agency or the rental house	Housing Allowances	11	\$ -	\$ 2,907
	In-Country Air Travel	9	-	651
Totals:		20	\$ -	\$ 3,558
7) Missing allocation basis				
Sufficient documentation was not provided to show that the costs are fully allocable to the Program or how the allocation basis was determined.	Housing Allowances	34	\$ -	\$ 9,060
	In-Country Per Diem	4	-	332
	Operation	22	-	22,052
Totals:		60	\$ -	\$ 31,444

(Continued)

[REDACTED]

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

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

8) Insufficient audit fee support				
Insufficient documentation, such as invoices and proof of payment, to substantiate the audit costs incurred to the Program.	Audit	2	\$ -	\$ 14,960
	Operation	2	-	20,064
Totals:		4	\$ -	\$ 35,024
9) Insufficient documentation to verify appropriate individual was paid				
Insufficient documentation was provided to determine if the individual paid is authorized to receive the payment.	In-Country Air Travel	3	\$ -	\$ 243
	Supplies	2	-	934
Totals:		5	\$ -	\$ 1,177
10) Insufficient documentation to support the purpose of travel and how it relates to the Program				
Lack of documentation to show the purpose of the travel, how the trip relates to the Program, and that the travel did actually occur.	In-Country Air Travel	9	\$ -	\$ 651
	In-Country Per Diem	1	-	57
Totals:		10	\$ -	\$ 708
11) Ineligible costs were charged to the Program				
Fees for funds transferred for a different funding agency were charged to the Program.	Operation	2	\$ 8,518	\$ -
Totals:		2	\$ 8,518	\$ -
12) Ineffective employment agreement				
Staff was paid after the employment agreement expired.	Supplies	1	\$ -	\$ 417
Totals:		1	\$ -	\$ 417
13) Missing proof of payment				
Proof of payment support was not provided for the cost charged to the Program.	Supplies	1	\$ -	\$ 9,810
Totals:		1	\$ -	\$ 9,810

(Continued)

[REDACTED]

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

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

All the instances noted above resulted in total unsupported questioned costs of \$89,051 and total ineligible questioned costs of \$8,518 under sub-awardee 1.

Description	Cost Category	Instances	Ineligible Costs	Unsupported Costs
Sub awardee 2				
1) Salary amount paid exceeds amount in employment agreement				
The gross salary amount charged to the Program for the employee exceeded the salary amount stated in the employment agreement.	Salaries and Payroll	5	\$ -	\$ 2,927
Totals:		5	\$ -	\$ 2,927
2) Inadequate proof of payment				
The net salary amount paid to the employee is more than the net salary amount on the employee's pay slip documentation.	Salaries and Payroll	5	\$ -	\$ 8,445
Totals:		5	\$ -	\$ 8,445
3) No exchange rate provided				
No exchange rate support was provided and the converted amount from EUR to USD exceeded the reasonable monthly exchange rate used for evaluation.	Salaries and Payroll	1	\$ -	\$ 328
Totals:		1	\$ -	\$ 328
4) Costs incurred were reversed for less than the amount charged to the Program				
Cost reversed was less than the original amount recorded.	Travel and Transport	1	\$ -	\$ 49
Totals:		1	\$ -	\$ 49
5) Insufficient documentation to support costs incurred				
The number of days of per diem paid to the employee exceeded the number of days the employee was	Travel and Transport	7	\$ -	\$ 5,057

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

authorized for travel without further evidence authorizing the additional days traveled.				
Totals:		7	\$ -	\$ 5,057
6) Agreement for trainer fees not provided				
Agreements for trainer fees were not maintained or provided.	Program Supplies and Equipment	6		\$ 6,140
Totals:		6	\$ -	\$ 6,140
7) Inadequate allocation methodology				
Five (5) instances where insufficient documentation was provided to validate the methodology of the allocation used to split shared costs, and two (2) instances where shared costs were allocated based on budgeted figures rather than actual costs incurred.	Other Direct Costs	7	\$ -	\$ 50,098
Totals:		7	\$ -	\$ 50,098
8) Missing procurement documentation				
Procurement was not completed for rental property costs.	Other Direct Costs	5	\$ -	\$ 27,245
Totals:		5	\$ -	\$ 27,245
9) Insufficient documentation to support audit costs				
Insufficient documentation, such as invoices and proof of payment, was provided to substantiate audit costs charged to the Program.	OMB Circular A-133	1	\$ -	\$ 8,453
Totals:		1	\$ -	\$ 8,453
10) Inconsistent foreign exchange rates used				
When recording costs to the general ledger, the costs were converted using a different foreign currency exchange rate than the foreign currency exchange rate used to	Salaries and Payroll	39	\$ -	\$ 36
	Other Short-Term Labor	4	\$ -	407

(Continued)

[REDACTED]

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[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

convert at the time of payment. This resulted in an overcharge to the Program.				
Totals:		43	\$ -	\$ 443
11) Missing or ineffective employment agreement				
Missing or expired employment agreement for salary costs charged to the Program.	Salaries and Payroll	4	\$ -	\$ 5,326
Totals:		4	\$ -	\$ 5,326
12) No attendance sheets provided				
Attendance sheets for short-term employees were not provided to demonstrate their attendance as required in the signed Memorandum of Agreement.	Other Short-Term Labor	3	\$ -	\$ 36,653
Totals:		3	\$ -	\$ 36,653

All the instances noted above resulted in total unsupported questioned costs of \$151,164 under sub awardee 2.

All the instances from the tables for sub awardee 1 and sub awardee 2 resulted in total unsupported questioned costs of \$240,215 and total ineligible questioned costs of \$8,518, these costs include indirect costs charged by the sub awardees.

Criteria:

Award No. [REDACTED] Subawards and Contracts (1), states in part:

"If the recipient provides USAID resources to other organizations to carry out the USAID-financed Program and activities, the recipient is responsible for monitoring such subrecipients or contractors..."

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."

2 CFR 200.332 (d), Requirements for pass-through entities, states in part:

"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved..."

Cause: [REDACTED] did not have a sub awardee/subcontractor monitoring policy in place.

Effect: Lack of sufficient monitoring over sub awardees costs incurred and paid may have resulted in the U. S. government overpaying for goods and services.

Questioned Costs: We identified \$8,518 in ineligible costs and \$576 in associated indirect costs, and \$240,215 in unsupported costs and \$16,239 in associated indirect costs, which resulted in \$265,548 in total questioned costs.

Please note for the amount questioned in this finding, we identified overlapping amounts of questioned costs for sub awardee 1 (of \$5,120 and associated indirect costs of \$346), and for sub awardee 2 (of \$28,531 and associated indirect costs of \$1,928). Therefore, in the SPFS presentation, the amount of \$35,745 was not questioned again under this finding; instead, the net amount of \$229,623 is presented in the SPFS and Summary of Results section.

Recommendation:

(1) We recommend that [REDACTED] provide evidence showing that costs charged to the Program by sub awardee 1 and sub awardee 2 are supported, authorized, reasonable, and allowable; or return \$265,548 of questioned costs and associated indirect costs.

(2) We recommend that [REDACTED] develop and implement a comprehensive policy and procedure to ensure adequate and sufficient monitoring of subawards.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-04: Travel costs charged to the Program were not sufficiently supported

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

Condition: Conrad tested 26 transactions out of 1,126 transactions in the Travel and Transport cost category, representing \$30,816 out of a total of \$248,284 for these transactions to determine if the costs incurred under the Program were reasonable, adequately supported, properly approved, and allowable. During our testing, we noted the following:

Description	Instances	Questioned Costs	Costs Questioned in a Prior Issue	Net Questioned Costs
No official travel expense form was provided. Per [REDACTED] policies and procedures, the official travel expense form must be filled out prior to a trip.	17	\$ 21,340	\$ -	\$ 21,340
Lack of documentation to show the purpose of travel and how it relates to the Program.	14	\$ 19,464	\$ (19,464)	\$ -
Lack of documentation, such as boarding passes to show the travel class and that the travel actually occurred.	10	\$ 15,385	\$ (15,385)	\$ -
No procurement documentation, such as a competitive bid analysis and/or formal quotations.	1	\$ 1,898	\$ -	\$ 1,898
Proof of payment unsupported by the cost incurred.	2	\$ 800	\$ (800)	\$ -
Per diem costs charged at a higher amount than shown on the invoice and payment support. Additionally, no documentation to support the higher amount charged to the general ledger.	4	\$ 106	\$ -	\$ 106
Total:	48			\$ 23,344

Criteria:

[REDACTED] Afghanistan Human Resources Policy, Section 5.9.2, Official travel expenses, states in part:

“...The request must be done filling in the Annex 7 prior to making the trip.”

(Continued)

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[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

Procurement Guidelines, Section 3.5, Derogations, states in part:

“The logistician has to request derogations when he/she thinks or realizes that it will not be possible to respect the standard procurement procedures or a particular donor rule.

The request has to be fully justified. For example, a specific context, a security situation can be accepted as a relevant justification. In any cases, the justification to request derogation cannot have any ties with criteria/considerations linked with the organization internal factors.”

Procurement Guidelines, Section 4.1, General Principles, states in part:

“For all purchases, no matter the procedure followed, the below-listed basics have to be followed:

4.1.2 Supplier Selection Criteria

The criteria for the selection of tenderers or candidates are:

-Professional capacity (Technical expertise, quality of work quality of documents)

-Authorization to perform their activities legally

-Financial capacity (such as the payment method: cash, check, credit or transfer)

Services (such as the payment conditions: before delivery, after delivery, after warranty period, partial payment)”

Finance Procedures Manual, Section 9.1, Procedure – Hard Copy Accounting, states in part:

“Every cash flow (in, out, bank transfer...) must have payment evidence. Each incorrect invoice can be judged as embezzlement.... Each payment evidence must be kept with its payment receipt in the hard copy accounting. It is also advised to attach a copy of delivery order, which is always requested by donors during audits.”

2 CFR 200,475, Travel Costs, states in part:

“(a) General. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies...”

2 CFR 200.303, Internal Controls, states in part:

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

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

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

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

2 CFR 200.403 (i), 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...*
- (g) Be adequately documented..."*

Cause: Management did not ensure travel costs were documented in accordance with [REDACTED] internal policy.

Effect: Lack of sufficient documentation for expenses paid and incurred may have resulted in the U. S. Government overpaying for goods and services.

Questioned Costs: We identified \$23,344 in unsupported costs and \$1,578 in associated indirect costs, which resulted in \$24,922 in total questioned costs.

Please note for the amount questioned under the travel and transport category of \$1,507 and the associated indirect costs of \$102, these costs have already been questioned in Finding 2024-05. Therefore, in the SPFS presentation, the amount of \$1,609 was not questioned again under this finding; instead, the net amount of \$23,313 is presented in the SPFS and Summary of Results section. However, even if these costs are supported under Finding 2024-05, they would still be questioned and should be refunded under this finding.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

Recommendation:

- (1) We recommend that [REDACTED] provide sufficient documentation to support the costs incurred were correctly charged to the Program or return \$24,922 in unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop and implement additional policies and procedures to improve management oversight of travel costs incurred.
- (3) We recommend that [REDACTED] develop and implement a document retention policy to ensure sufficient documentation is retained and available to support the costs incurred.

(Continued)

[REDACTED]

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[REDACTED]

[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

Schedule of Findings and Questioned Costs (Continued)

Finding 2024-05: Ineligible costs were charged to the Program

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

Condition: Conrad tested the following:

- 26 transactions out of 1,126 transactions in the Travel and Transport cost category, representing \$30,816 out of a total of \$248,284 in this category.
- 34 transactions out of 2,654 transactions in the Other Direct Costs (ODC) cost category, representing \$322,054 out of a total of \$1,297,215 in this category.

During our testing to determine if costs incurred were reasonable, adequately supported, properly approved, and allowable, we noted the following:

Description	Cost Category	Instances	Questioned Cost
1) Penalties were charged to the Program			
[REDACTED] charged visa penalties to the Program.	Travel and Transport	1	\$ 150
	ODC	2	300
Totals:		3	\$ 450
2) Per diem amount charged to the Program was more than the allowable amount			
Per [REDACTED] Per Diem 2021 memorandum, the allowable per diem amount per employee is 610 EUR or \$499 USD. The general ledger was charged 750 EUR or \$614 USD; the difference was questioned.	Travel and Transport	1	\$ 115
Totals:		1	\$ 115
3) Travel Costs charged for an employee not on the Program's employee list			
[REDACTED] Human Resource Officer's travel costs were charged directly to the Program. The support referenced a different project and did not show how the employee is a direct cost to the Program.	Travel and Transport	1	\$ 1,507
Totals:		1	\$ 1,507

All the instances noted above resulted in total ineligible costs of \$2,072.

Criteria:

(Continued)

[REDACTED]

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[REDACTED]
[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

[REDACTED] Finance Procedures Manual, Section 3. Accounting Procedures for Ineligible Expenses, states in part:

*"Ineligible expenses relates to any expenses that cannot be assigned to a donor contract. An expense can be considered ineligible and cannot be affected to a project (and won't be reimbursed by a donor) because of its nature, the date of the expense, and in case of an audit, the expense can be refused by the donor.
Ineligible expenses have a direct negative impact on the own funds of the organization. As a consequence, every expense committed on the field must be allocated to a project. Thus, no ineligible expense can be committed on field missions, unless there is a preliminary agreement from the [REDACTED] General Direction."*

[REDACTED] Per Diem 2021, New Per Diem and Break Allowance from March 2021, states in part:

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[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..."

2 CFR 200.413 (a), Direct Costs, states in part:

(Continued)

[REDACTED]

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[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

“General. Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs...”

2 CFR 200.441, Fines, penalties, damages and other settlements, states in part:

“Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.”

Cause: [REDACTED] did not adhere to its policy surrounding ineligible costs due to lack of management oversight.

Effect: Lack of adequate controls in [REDACTED] internal monitoring over expenses charged to the Program resulted in the U. S. Government overpaying for unallowable costs.

Questioned Costs: We identified \$2,072 in ineligible costs and \$140 in associated indirect costs, which resulted in \$2,212 in total questioned costs.

Recommendation:

- (1) We recommend that [REDACTED] show evidence that the ineligible costs identified are allowable or return \$2,212 of ineligible costs and associated indirect costs.
- (2) We recommend that [REDACTED] improve management oversight in order to adhere to its own policy for ineligible expenses.
- (3) We recommend that [REDACTED] provided additional trainings to management to become familiar with and adhere to the 2 CFR 200 requirement, to ensure unallowable costs such as visa penalties, duplicate costs, excess per diem costs, and indirect costs are excluded and not charged to the Program.

(Continued)

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-06: Inconsistent foreign exchange rates were used to incur costs billed to USAID

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

Condition: Conrad tested the following:

- 29 transactions out of 5,684 transactions in the Programs Supplies cost category, representing \$1,953,595 out of a total of \$5,141,335 in this category. There were two (2) instances where [REDACTED] used an average exchange rate but did not show how the average exchange rate was determined or calculated. Conrad used the exchange rate from InfoEuro to recalculate and noted [REDACTED] overcharged by \$3,635. This resulted in \$3,635 in unsupported costs.
- 34 transactions out of 2,654 transactions in the Other Direct Costs (ODC) cost category, representing \$322,054 out of a total of \$1,297,215 in this category. There were five (5) instances where the costs incurred were invoiced in U.S. dollars and converted to AFN for payment using a daily exchange rate. When these costs were entered into the general ledger, the payment amount in AFN was then converted back to U.S. dollars using a monthly exchange rate. This resulted in an overcharge of costs as the cost incurred to the Program should have been the U.S. dollar amount listed on the original invoice. This resulted in \$1,593 in unsupported costs.

Criteria:

[REDACTED] **Finance Procedures Manual, Section 6. Exchange Rates Calculation Procedure**, states in part:

"The process of calculating the monthly exchange rates is carried out by the FAC (Financial and Administrative Coordinator), which is then checked at headquarters. The approval documentation for the monthly exchange rates comes back to the Finance Officer at headquarters. The exchange rates are calculated and inputted into SAGA during monthly accounting closure. Calculations use the Euro as a base currency, with each mission using a conversion of Euros. The exchange rates inputted affect a mission's accounting as a whole and therefore what expenses in can make whilst adhering to its budget."

2 CFR 200.303, Internal Controls, states in part:

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

2 CFR 200.400, Policy guide, states in part:

(Continued)

[REDACTED]

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[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

"...(d) The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles and must provide for adequate documentation to support costs charged to the Federal award..."

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

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

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles..."

Cause: [REDACTED] did not follow consistent foreign exchange rate procedures. For some transactions, [REDACTED] used an average monthly conversion rate which was derived from three different sources; however, [REDACTED] did not maintain sufficient documentation to show how the monthly rate was calculated. In other transactions, [REDACTED] did not consistently record the invoices to the general ledger in the currency they were originally issued. As such, [REDACTED] used a daily conversion rate when converting the payment from U.S. dollars to AFN for payment, and then used a monthly conversion rate when converting the AFN payment amount back to U.S. dollars at the time of entering those costs into the general ledger.

Effect: Lack of adequate controls in [REDACTED] internal monitoring over exchange rates resulted in the U.S. Government overpaying for goods and services.

Questioned Costs: We identified \$5,228 in unsupported costs and \$354 in associated indirect costs, which resulted in \$5,582 in total questioned costs.

Recommendation:

- (1) We recommend that [REDACTED] provide sufficient documentation to show the accuracy of the foreign exchange rates used or return \$5,582 in unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop a policy to ensure [REDACTED] clearly establish policies and procedures on how to determine its exchange rate.
- (3) We recommend [REDACTED] establish and implement a foreign exchange rate policy to recuperate gains or losses on foreign exchange rates separately in the general ledger.

(Continued)

[REDACTED]

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[REDACTED]
[REDACTED] of Afghanistan

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Schedule of Findings and Questioned Costs (Continued)

- (4) We recommend that [REDACTED] maintain sufficient evidence of the exchange rates used to convert foreign currency transactions to the Program.

(Continued)

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from [REDACTED], SIGAR, and USAID pertaining to agreement activities under this audit. We identified three prior audit reports which contained 11 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 concluded that [REDACTED] had taken adequate corrective actions on six findings and the other five findings were not adequately addressed and are repeated under this audit. We have summarized the results of our procedures below:

1. Federal Award Compliance Examination for USAID and U.S. Department of State (USDOS) Awards closed during the fiscal year ended December 31, 2020.

Exchange errors

Issue: The audit firm noted instances where errors were present in the U.S. dollar value in the ledger for cash receipts.

Status: For the current engagement, we noted instances where the amount [REDACTED] charged to the Program exceeded the amount listed on the invoice, see **Finding 2024-06** of this audit report. As such, Conrad concluded that [REDACTED] has not taken adequate corrective action on this finding.

U.S. government regulations on terrorism

Issue: The audit firm noted [REDACTED] implemented policies and procedures for vetting vendors, consultants, partners, etc. However, the audit firm also noted that the vetting procedures were conducted only initially upon engaging with the supplier. As a result, there were instances where suppliers were checked once several years ago and not since.

Status: For the current engagement, there were no instances where [REDACTED] did not follow the implemented policies and procedures for vetting vendors, consultants, and partners. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

Incentive payments

Issue: The audit firm noted projects where [REDACTED] was providing incentives to hospitals and camp staff, but formal agreements did not exist. In one instance the agreement with the camp expired and an updated agreement was not available. In another, there was no formal agreement detailing the terms of the incentive payments.

Status: For the current engagement, there were no instances of [REDACTED] incorrectly paying incentives. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

(Continued)

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[REDACTED]
[REDACTED] of Afghanistan

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Status of Prior Audit Findings (Continued)

2. Federal Award Compliance Examination for USAID and USDOS Awards closed during the fiscal year ended December 31, 2020.

Allocation methodology

Issue: The audit firm noted [REDACTED] followed a consistent methodology to distribute certain costs that could not be entirely attributed to a specific project. The method involved using an analysis of the projects active in a given location to establish a key used to assign each month for each type of shared cost to a project. The audit firm noted that given the dynamic nature of the work, it was not easily possible to verify without reviewing the entire history of a given project that the correct allocation had been made during the year.

Status: For the current engagement, we noted instances where the amounts [REDACTED] charged to the Program were based on an allocation methodology using budgeted percentages rather than an allocation based on actual expenditures, see **Finding 2024-01** of this audit report. As such, Conrad concluded that [REDACTED] has not taken adequate corrective action on this finding.

Coding

Issue: The audit firm noted that general ledger coding categories applied were not always consistent.

Status: For the current engagement, there were no instances noted where general ledger coding categories were not consistent. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

Exchange errors

Issue: The audit firm noted instances where errors were present in the U.S. dollar value in the ledger for cash receipts.

Status: For the current engagement, we noted instances where the amount [REDACTED] charged to the Program exceeded the amount listed on the invoice, see **Finding 2024-06** of this audit report. As such, Conrad concluded that [REDACTED] has not taken adequate corrective action on this finding.

U.S. government regulations on terrorism

Issue: The audit firm noted [REDACTED] had implemented policies and procedures for vetting vendors, consultants, partners, etc. However, the audit firm also noted that the vetting procedures were

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Status of Prior Audit Findings (Continued)

conducted only initially upon engaging with the supplier. As a result, there were instances where suppliers were checked once several years ago and not since. In addition, there were suppliers who [REDACTED] has been working with consistently from prior to implementation of the vetting procedures.

Status: For the current engagement, there were no instances where [REDACTED] did not follow the implemented policies and procedures for vetting vendors, consultants, and partners. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

Incentive payments

Issue: The audit firm noted projects where [REDACTED] was providing incentives to hospitals and camp staff. In one instance the agreement with the camp was expired and an updated agreement was not available. In another, there was no formal agreement detailing the terms of the incentive payments.

Status: For the current engagement, there were no instances of [REDACTED] incorrectly paying incentive payments. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

3. SIGAR Financial Audit 22-18 of Costs Incurred Under Agreement No. [REDACTED], for the period of October 1, 2019, through September 30, 2020.

Finding 2021-01: [REDACTED] charged costs to the Program based on budget estimates and lacked an equitable allocation methodology

Issue: The audit firm noted that [REDACTED] charged costs based on the budget estimates proposed. However, [REDACTED] did not provide documentation showing that actual shared costs incurred were accurate and/or based on an actual level of effort. [REDACTED] was unable to demonstrate that it had a reasonable and equitable allocation methodology to adequately charge shared costs across programs.

Status: For the current engagement, we identified one finding where [REDACTED] charged costs based on the budget estimates proposed. See **Finding 2024-01** of this audit report. As such, we concluded that [REDACTED] has not taken adequate corrective action on this finding.

Finding 2021-02: Exclusion checks were not performed prior to conducting business with Vendors or Individuals

Issue: The audit firm noted [REDACTED] did not follow award requirements to check vendors or individuals against exclusion lists prior to paying procurements less than 10,000 euros.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for
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[REDACTED]
[REDACTED] of Afghanistan

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Status of Prior Audit Findings (Continued)

Status: For the current engagement, there were no instances noted where [REDACTED] did not conduct or maintain evidence of performing an exclusion screening for its vendors. As such, we concluded that [REDACTED] has taken adequate corrective action on this finding.

Finding 2021-03: Costs were not supported with sufficient documentation to determine allowability

Issue: The audit firm noted that [REDACTED] did not provide sufficient documentation to determine whether some costs were allowable under the Program and applicable federal regulations. The audit firm noted two travel and transportation transactions where business class fare was charged. [REDACTED] indicated that these flights were the cheapest available due to the Covid-19 emergency; however, [REDACTED] did not maintain supporting documentation to substantiate this claim. The audit firm also noted one instance where [REDACTED] charged costs related to shipping documents from 2016 to the Program. This is an administrative expense and not directly allocable to the Program. In one other transaction, [REDACTED] provided procurement documentation listing some potential vendors who placed bids for a quotation request, but the vendor awarded was not on the list of potential vendors. [REDACTED] was unable to provide documentation to support that the vendor was properly selected according to [REDACTED] procurement process.

Status: For the current engagement, we noted three instances where [REDACTED] did not maintain sufficient documentation of approval from the funding agency for charging settlement related costs to the Program. See **Finding 2024-02** and **Finding 2024-04** of this audit report. As such, we concluded that [REDACTED] has not taken adequate corrective action on this finding.

(Continued)

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

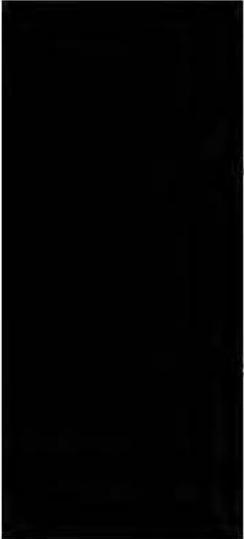
[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

[REDACTED] **Responses to Audit Findings**

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

(Continued)



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CONRAD LLP
Mr Sam PERERA, Partner
Mr Jason BAEK, Senior Associate
23161 Lake Center Drive, Suite 200
Lake Forest
UNITED STATES

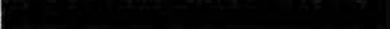
By e-mail: sperera@conradllp.com
and jbaek@conradllp.com

 February 28th, 2024

N. Ref: PUI – AFG21089

Subject: Grant agreement No.  Responses to Audit Findings

Dear Mr Perera
Dear Mr Baek,

I am writing to you in my capacity as licensed lawyer at the  bar for the  association 

As you know, on September 24, 2021, the United States Agency for International Development (“USAID”) awarded the above-mentioned grant agreement to  to support the 

 of Afghanistan program.

PUI worked through a consortium with INTERSOS and DACAAR.

Two modifications were made to the initial agreement, according to which the total award amount was \$22,500,000 and the period of performance from August 1, 2021 through March 31, 2023.

Your firm, Conrad LLP (“Conrad”), was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the agreement.



(Continued)



Following the exit meeting which took place on December 14, 2023, [REDACTED] was asked to reply to Conrad's findings included in the draft report by February 28, 2024.

The present letter aims to respond to the draft report, finding by finding.

* *
*

At the outset, as will be detailed below, it is essential to bear in mind that the period of performance of the audited grant started on August 1, 2021.

Two weeks later, on August 15, 2021, the Taliban overthrew the Afghan government and overran the capital, Kabul. After that, the international community was reluctant to engage with Afghanistan's banking sector out of fear of violating sanctions, and international donors and aid organizations suspended their funding and programming activities in Afghanistan. As a result, Afghanistan fell into economic and humanitarian crises.

Secondly, we are concerned about the method used by Conrad to carry out this audit, in relation to [REDACTED] latest responses to the auditors.

Indeed, prior to the exit meeting held on December 14, 2023, [REDACTED] provided responses to the preliminary issues identified by Conrad.

During the exit meeting, the auditors told [REDACTED] that these responses would be considered when drafting the draft report.

We are concerned that this does not appear to be the case, meaning that [REDACTED] latest justifications have not been taken into account.

The fact that these responses were not considered is apparent from the Summary table of issues as of 2.8.2024, where the last [REDACTED] responses are not included, and where the preliminary results all remained the same despite these responses.

Exhibit 1: Table - Summary of Issues 2.8.24

* *
*





I. On the Finding 2024-01, under which, according to the auditors, [REDACTED] charged costs to the Program based on budget estimates and therefore lacked an equitable allocation methodology

Conrad found that [REDACTED] did not develop and document a method for allocating shared costs across programs and did not have a reasonable and equitable allocation methodology for allocating shared costs across programs. [REDACTED] method for allocating shared costs was based on budget estimates and not on actual costs incurred.

Again according to Conrad, in addition, [REDACTED] did not perform an after-the-fact review or provide documentation to demonstrate that (1) the budget estimates were accurate and adequately reflected costs charged and (2) costs were appropriately charged across programs to reflect the level of work performed.

This finding relates to 4 different cost categories: salaries (II.1), program supplies (II.2), other direct costs (II.3).

Finally, Conrad's reconsideration of [REDACTED] costs allocation method contravenes [REDACTED] right to fair notice (II.4).

I.1) Salaries

In total, \$275,189 in salaries are considered unsupported costs because they were charged to the Program based on budget estimates and lacked an equitable allocation methodology.

However, after demonstrating how the costs allocation method in question is equitable (A), how it has always been accepted by USAID (B), and how the method complies with applicable cost principles (C), [REDACTED] intends to demonstrate it has taken full account of the auditors' observations (D).

A) The cost allocation methodology used by [REDACTED] is equitable and transparent

In practice, in [REDACTED] missions, there are personnel hired for running the office, guards, drivers, administrative staff including finance staff – in other words the support teams – that can't delineate their time each day by a funding source (or donor).

[REDACTED] allocation methodology for shared costs was developed so that all donors would share equally the "administrative costs" of running an office overseas, in this case Afghanistan.



[REDACTED]

The aim of the methodology is to share these costs in a fair and transparent manner among donors – in other words, fairly distributed using an equitable and transparent allocation key for each expense.

Exhibit 2: [REDACTED] Procedure for the Allocation of Shared Costs

[REDACTED] allocation method was implemented to guide field missions on the distribution of shared costs – mostly salary and general mission costs, regularly recurring – across different budgets.

For this purpose, [REDACTED] calculates allocation keys based on direct aid and aid staff budget. These elements are compared across all budgets. The weight of aid (including aid staff) of a specific budget determines the weight of shared costs that same budget has to take on.

The calculation is continuous, not fixed to calendar years but linked to the duration of the projects. New projects are being added before submission of proposals and their share calculated for their duration.

3 to 4 different types of keys can be calculated: a sector-specific aid key for shared aid (staff) costs, a base key for shared base (staff) costs, a coordination key for shared coordination (staff) costs, and in specific cases a staff key.

The calculated key is converted into months for the creation of a general allocation table, applicable to all donors and currencies.

It will be demonstrated below that this costs allocation method is well documented, well known, and repeatedly accepted by USAID since 2013.

Together, these elements show that the method used by [REDACTED] over the past ten years is equitable, transparent, and well known by USAID.

B) The cost allocation method used by [REDACTED] has always been accepted by USAID

The shared costs allocation method in question was developed by PUT in 2013.

For the year 2012, the certified public accountant firm [REDACTED] – member of the American Institute of Certified Public Accountants (AICPA) - carried out a federal award compliance examination, including 5 awards that were closed during that fiscal year.

On the occasion of this report, [REDACTED] pointed out that the staff (expatriate as well as local) did not complete timesheets or document the time they worked on each

[REDACTED]

[REDACTED]

[REDACTED]

award. It indicated that *"without proper documentation to support the distribution of salaries and wages, personnel costs associated with each program could be considered unallowable."*¹

However, [REDACTED] also noted that, based upon its review of policies and procedures adopted in February 2013 and implemented in July of 2013 (as documented in its correspondence to USAID dated August 11, 2013), [REDACTED] had now implemented a method of allocating salary expense for all expatriates in accordance with 8.m of Appendix B of 2 CFR 230.²

The same process was implemented for local staff.³

Exhibit 3: Audit Report – Federal Award Compliance Examination – 2012

[REDACTED] was able to find the draft of the above-mentioned correspondence sent by [REDACTED] to USAID on August 11, 2013, which to [REDACTED] knowledge has never received a reply:

In this letter, [REDACTED] informed USAID that [REDACTED] had developed its new method for the allocation of shared costs:

The [REDACTED] auditor concluded that [REDACTED] had implemented procedures to comply with the applicable regulation.

Exhibit 4: Draft letter from [REDACTED] to USAID – August 11, 2013

For the year 2013, [REDACTED] conducted the same Federal Award Compliance Examination, which included the audit of 11 awards that were closed during that fiscal year.

On this audit, [REDACTED] confirmed that, in relation with expatriates:

"[REDACTED] has now implemented a method of allocating salary expense for all expatriates in accordance with 8.m of Appendix B of 2 CFR 230."

In relation with local staff, [REDACTED] concluded that:

*"During 2013, [REDACTED] implemented a method of allocating local staff salaries. Accordingly, we consider this finding to have been properly addressed."*⁴

Exhibit 5: Audit Report – Federal Award Compliance Examination – 2013

¹ Page 57 of Exhibit 2

² Page 61 of Exhibit 2

³ Page 62 of Exhibit 2

⁴ Page 66 of Exhibit 4

[REDACTED]

[REDACTED]

US government-funded projects have since been systematically audited. No certified public accountant firm has ever criticized the method used to allocate shared costs.

What's more, since 2013, USAID is perfectly informed of the cost allocation methodology for shared costs related to human resources used by [REDACTED] and has never expressed any objections to it.

Indeed, the RCA audit reports are shared annually with USAID's Bureau for Humanitarian Assistance (BHA) by [REDACTED] or the accounting firm.

Naturally, the Award under discussion was also audited in 2021 and 2022.

No comments were made on the method used to allocate shared costs.

In the draft report, in the part related to the Status of Prior Audit Findings ⁵, Conrad indicates that one previous SIGAR audit ⁶ already found that [REDACTED] charged costs to the Program based on budget estimates and lacked an equitable allocation methodology.

First, it must be noted that this finding was also made by Conrad, as it was the independent audit firm contracted by SIGAR to conduct the audit of Grant No. [REDACTED]

In addition, under the Grant No. [REDACTED] Conrad issued its final report on March 7, 2022.

Yet, the period of performance of the present Program started August 1, 2021.

This means that at the time the present Program started, and throughout most of its execution, such findings related to [REDACTED] costs allocation methodology had never been raised nor brought to its attention.

Further on, as will be explained below, this means that the interpretation of the rules applicable to [REDACTED] have changed during the execution of the present program.

Yet it will be noted that between 2013 and Conrad's final report of the above-mentioned program ⁷ dated March 7, 2022, [REDACTED] cost allocation method, if slightly updated, remained unchanged.

In particular, the allocation of shared costs based on budget estimates did not include a process to review after-the-fact these costs.

⁵ Pages 46-40 of the draft report.

⁶ SIGAR Financial Audit 22-13 of Costs incurred under Agreement No. [REDACTED] for the period of October 1, 2019 through September 30, 2020

⁷ See above.

Therefore, [REDACTED] shared costs allocation method is known by USAID for more than ten years, and SIGAR's financial audit 22-18 – based on Conrad's audit report - is the first to question this method.

It is also the first to recommend costs disallowance based on such finding.

Nevertheless, as will be demonstrated below, [REDACTED] has taken due note of the auditors' remarks, as soon as they were brought to its attention, and has implemented internal control procedures accordingly.

C) On the application of the applicable cost principles to [REDACTED] method

The applicable cost principle is as follows:

2 CFR 200.430 - Compensation-personal services states, in part:

"(i) Standards for Documentation of Personnel Expenses

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(iii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that (...)

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim changes made to a Federal awards based on budget estimates. (...)"

It is necessary to recall that the total budget of the Award was \$22,500,000, out of which \$4,393,845 in costs related to salaries were allowed.

Finally, as presented in the Special Purpose Financial Statement (SPFS), \$3,869,663 were actually spent on salaries.

This represents a variation of \$524,182, or 2,3% of the total amount of the Award.

In this instance, [REDACTED] costs allocation methodology complies in part with the above-mentioned regulation, as it provides a system **reasonable** assurance that the charges are accurate, allowable, and properly allocated.

This procedure results in a very detailed Excel sheet entitled "Table for the Allocation of Common Costs" ("TACC").

The TACC for [REDACTED] Afghanistan missions has been communicated to Cobrad as part of the audit.

However, it is true that at the period of performance for the grant (August 1, 2021 to March 31, 2023), [REDACTED] used budget estimates to allocate shared costs related to personnel expenses without having implemented a process to review after the fact these charges.

Nevertheless, as will be demonstrated below, [REDACTED] has since then implemented a series of corrective measures including timesheets and systematic after-the-fact reviews.

D) On the update of internal procedures for allocating shared costs by [REDACTED]

From March 2022, [REDACTED] has set up a procedure for implementing timesheets to employees, nationals and expatriates, whose costs are charged to donor-funded projects.

Salary costs considered as shared costs are therefore charged to the projects according to the distribution resulting from the timesheets.

Exhibit 6: [REDACTED] Procedure for implementing timesheets – March 22, 2022

Since then, timesheets have been fully implemented for 8 missions.

By the end of 2024, timesheets will be implemented for 7 additional missions – **including Afghanistan.**

[REDACTED]

Hence, by the end of 2024, timesheets will have been deployed on 85% of [REDACTED] missions worldwide.

Exhibit 7: Description of process of Timesheet implementation on the [REDACTED] missions

Exhibit 8: Deployment Diagram Timesheet for Afghanistan - 2024

Several arguments explain why timesheets are implemented in Afghanistan in 2024 (while it has started in 2022 on other missions):

- Afghanistan being one of the biggest [REDACTED] missions, there was a wish to test the new process on smaller missions (technical challenges to manage the implementation of the human resources software with so many employees) and gain experience;
- Complexity of access (at a country and regions' level) for training and deployment;
- Difficult political and human resources regulations context, with the fall of Kabul in August 2021, which stirred:
 - Change in the local team (impact of women, etc)
 - Difficulty in recruiting international staff.

On a macro point of view, [REDACTED] considered that Afghan team had more pressing challenges in the aftermath of the fall of Kabul.

Moreover, [REDACTED] understands that its current costs allocation methodology, if documented and equitable, is quite complex.

That is why [REDACTED] is currently deploying new internal procedures.

At the end of 2023, [REDACTED] procedure for the allocation of shared costs has been updated.

Since October 2023, the procedure includes an after-the-fact review of the allocation of shared costs:

"Starting October 2023, each time a program is finalized, an updated T-ACC must be performed based on actual aid and aid staff expenses (which will be the 1st draft of the final financial report).

The ratios calculated based on actuals will be compared to the ratios calculated based on budget."

Exhibit 9: [REDACTED] Procedure for the Allocation of Shared Costs - Updated 2023



This is also reflected in [REDACTED] 2024 programming.

Indeed, in accordance with the framework note for the [REDACTED] financial year, and in line with the multi-year strategy, the focus of the administrative and financial management will notably be on the following project:

*“Develop a new shared cost management tool (new TACC)
- Implementation of a new TACC, the [REDACTED] TACC being old (2013) and questioned by some auditors.
- Application of TACC Actual vs. Budget control for current projects (in parallel with the roll-out of the new method).”*

Exhibit 10: [REDACTED] Programming 2024

Therefore, [REDACTED] has taken into account every comment made by Conrad, even before they were officially endorsed by SIGAR.

I.2) Program supplies

This finding relates to an air charter carrying medical equipment/pharmaceutical items from [REDACTED] to Kabul (AFGHANISTAN) on December 16, 2022.

The medical equipment was destined to the present Program, as well as 3 other programs led by [REDACTED] in AFGHANISTAN.

Medical equipment is considered goods and services under the cost principles set out below.

A) Applicable cost principles

2 CFR 200.405 – Allocable costs states:

“(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;*
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and*



[REDACTED]

(3) *Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.*

(...)

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

B) Application of the cost principles to the air charter

The total amount of the air charter's invoice is \$ 625,000.

Exhibit 11: Air charter invoice

This invoice represents the total amount of pharmaceutical item purchases for 4 different projects, including the project in question here.

In value, the total amount for the pharmaceutical items for the 4 different projects is € 570,207,74.

This is evidenced by all the invoices for the pharmaceutical items that were purchased for the 4 projects.

Exhibit 12: Invoices

Out of € 570,207,74 in total value of the medical equipment purchased, € 523,329,58 were dedicated to the audited Project.

This represents 92% of the total order, in value of the pharmaceutical items purchased.

Exhibit 13: Table summarizing the pharmaceutical items purchased

Eventually, out of \$ 625,000 from the global air charter invoice, [REDACTED] charged \$ 587,500 on the general ledger.

This represents 94% of the global invoice amount.

A variation of 2% represents \$12,500 on the total amount of \$ 625,000.



It is reminded that 2 CFR 200.405 (a) (2) accepts approximates, as opposed to strict equality.

Therefore, [redacted] strongly objects to the entire amount allocated to the project being declared unsupported, given that [redacted] has fully complied with the applicable cost regulations mentioned above.

First, it is imperative to point out that, contrary to what Conrad asserts, in the present case [redacted] did not at all apply its above-mentioned cost allocation method, as in the case of salaries.

Exhibit 1: Table – Summary of issues 2.8.24 - Sheet p.4 line P-01

On the contrary, [redacted] divided the total invoice between the various projects concerned by the air charter according to the value of the medical item transported for each of these projects.

Hence, the allocation is not based on [redacted] usual TACC, but on the actual ratio of the value of the products transported.

This distribution is perfectly in line with the allocable costs principles set out in CFR regulation 200.405.

Indeed:

- **The amount charged (\$ 587,500) was incurred specifically for the project;**

It can't be denied, and the auditors did not deny, that most of the medicine carried by the air charter was destined to the project under discussion.

- **The air charter benefitted both the Program under discussion and other programs,**
- **And the cost can be distributed in proportions that may be approximated using reasonable methods;**

In fact, dividing the total cost between the various projects on the basis of the value of the products transported for each project is a perfectly reasonable method, allowing an approximate proportion of the total to be allocated to each project.

- **The air charter was necessary to the overall operation of [redacted] and is assignable in part to the Award under discussion;**

It can't be denied, and the auditors did not deny, that the medicines carried by air charter to Kabul were assignable in part – and even in majority – to the present Award.



[REDACTED]

[REDACTED]

In conclusion, for the air charter, [REDACTED] has not used any cost allocation method and has complied fully with its obligations in terms of allocable costs principles.

[REDACTED] therefore firmly refutes the conclusion that the sum of \$587,500 related to the air charter is unsupported.

1.3) Other direct costs

Under this sub-finding, Conrad identified 26 instances where other direct costs were allegedly based on TACC budgeted figures.

[REDACTED] disagrees with this assertion, since either the costs in question were not allocated to several projects (A), or the method used is compliant with applicable regulations (B).

A. On the 3 instances where the questioned costs were not allocated to several projects

On 3 instances⁸, Conrad found that no allocation was provided and that the cost seemed to be based on TACC budgeted figures.

However, [REDACTED] does not understand this issue, since the assets purchased were exclusively and solely dedicated to the present Award.

These assets were not dedicated to any other Award, as shown in the documents submitted by [REDACTED] to the auditors under instances O-01, O-02, and O-03.

In these conditions, the TACC does not apply. The costs were not based on budget estimates.

B. On the compliance of [REDACTED] costs allocation method with applicable regulations

It is recalled that 2 CFR 200.405 – Allocable costs states:

"(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;*

⁸ O-01, O-02, O-03

[REDACTED]

[REDACTED]

(2) *Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and*

(3) *Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.*

(...)

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

It is true that in the other instances⁹, [REDACTED] used its costs allocation methodology – based on the TACC – developed in Section I.1) above.

However, this method meets the requirements of the above-mentioned regulations. Indeed, on one hand, the questioned costs relate to goods and services.

These costs were incurred specifically for the Award under discussion, which is not debated.

They benefitted both the present Award and other awards. These costs have been distributed in proportions that are approximated – as explicitly authorized by the applicable regulation –, using the TACC, which is undoubtedly a reasonable method.

These direct costs were necessary to the overall operation of [REDACTED] and are assignable in part to the present Award.

On the other hand, in application of the direct costs allocation principle recalled above, the direct costs can be allocated on any reasonable documented basis. As has been demonstrated above, [REDACTED] costs allocation methodology is solidly documented.

In addition, [REDACTED] has implemented a series of measures to take into account the auditors' comments.

⁹ O-05 to O-09, O-14 to O-27, O-29 to O-31

[REDACTED]

[REDACTED]

In conclusion, all of the questioned other direct costs should be supported, either because they benefitted solely the award under discussion, or because they were allocated using a method compliant with applicable regulations.

Finally, this costs allocation methodology applied to other direct costs has always been used by [REDACTED] and has always been accepted by the auditors, by SIGAR and by USAID.

Under the two previous audits performed by Conrad on [REDACTED] programs in Afghanistan¹⁰, this issue has never been raised neither by Conrad nor by SIGAR.

Questioning this methodology after the execution of the project was completed breaches [REDACTED] right to fair notice.

II.4) On the violation of [REDACTED] right to fair notice

The universal legal principle of fair warning or fair notice – “*sécurité juridique*” in European countries –, is, under American law, based on the due process clause of the Fifth Amendment.

According to this doctrine, defendants must receive “fair notice” of the conduct that can subject them to punishment. In other words, where a defendant – whether criminal or civil – faces punishments, the standards of conduct giving rise to such punishment must be reasonably discernible before the punishment is imposed.

By two decisions from 2012¹¹, the Supreme Court reiterated that federal agencies must give fair notice prior to enforcing regulations.

Naturally, this rule applies to entities acting on behalf of these agencies, such as Conrad.

In the first decision, the Supreme Court found that due process demands “*that regulated parties should know what is required of them so they may act accordingly [and] precision and guidance are necessary so that those enforcing the law do not act in an arbitrary or discriminatory way.*”¹²

In the second decision, the Court refused to defer to the Agency’s new interpretation of its own regulations, as doing so would “*seriously undermine the principle that agencies should provide regulated parties ‘fair warning of the conduct [a regulation] prohibits or requires.’*” According to the Court,

¹⁰ Grant No. [REDACTED] and Grant No. [REDACTED]

¹¹ *FCC v. Fox Television Stations, Inc.*, 132 S. Ct. 2307 (2012) and *Christopher v. SmithKline Beecham Corp.*, 132 S. Ct. 2156 (2012)

¹² *Fox*, 132 S. Ct. at 2317



“[I]t is one thing to expect regulated parties to conform their conduct to an agency’s interpretations once the agency announces them; it is quite another to require regulated parties to divine the agency’s interpretations in advance or else be held liable when the agency announces its interpretations for the first time in an enforcement proceeding and demands deference.”¹³

The Supreme Court emphasized that:

“Where, as here, an agency’s announcement of its interpretation is preceded by a very lengthy period of conspicuous inaction, the potential for unfair surprise is acute.”¹⁴

Hence, the holdings in these two cases provided an important reminder to regulated entities that while federal agencies may indeed change their policies, they cannot enforce those changed policies without providing adequate notice.

In this instance, as demonstrated above, the shared costs allocation method used by [REDACTED] has been continuously accepted by USAID since 2013.

This means that since 2013, USAID considers that this method complies with the applicable regulations.

Between 2013 and today, [REDACTED] shared costs allocation method has remained unchanged, and if [REDACTED] is aware that between 2013 and today, regulations have changed, there has had a very lengthy period of conspicuous inaction by USAID.

In other words, up to SIGAR’s Financial Audit Report of April 2022, based on Conrad’s audit report dated March 7, 2022¹⁵, USAID had always considered that [REDACTED] shared costs allocation method was fair and equitable. USAID had also, up to SIGAR’s Financial Audit Report, always considered that this method, based on budget estimates, was compliant with applicable regulations regarding personnel expenses.

Therefore, Conrad’s findings under the present Program, stating that the method is contrary to the applicable regulations constitutes a change in the interpretation of the applicable regulations.

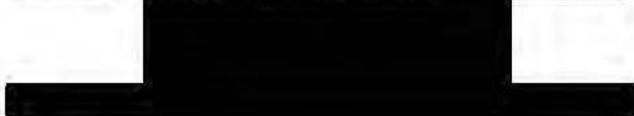
At no point was [REDACTED] informed of this change in the interpretation of the regulations before the actual enforcement proceeding.

Consequently, [REDACTED] was denied its right to fair notice.

¹³ *Christopher*, 132 S. Ct. at 2167 and 2168

¹⁴ *Christopher*, 132 S. Ct. at 2168

¹⁵ Endorsed by SIGAR regarding Grant Agreement No. [REDACTED]; see note n^o 6 above





In this context, [REDACTED] could not adapt its behavior to the new interpretation of the rule.

However, as demonstrated above, once informed, [REDACTED] made every effort to comply with the new interpretation of the rule and the auditors requests.

Therefore, [REDACTED] should not be asked to refund any costs under this finding.



II. On the Finding 2024-02, under which, according to Conrad, funds transfers services were not procured and were not sufficiently documented to demonstrate it was related to this Program

will demonstrate that a competitive bid analysis was completed before selecting the Money Transfer Agencies (MTA) (A), and that the funds transferred were related to this Program (B).

To begin with, it must be recalled that the execution of the Program started a few weeks before the fall of Kabul in August 2021.

Therefore, although a competitive bid analysis has been made, teams were extremely focused on security and questions arising regarding, among others, their female national staff.

Nevertheless, despite this difficult context, and the fact that almost everything was shifting from one hour to another, thanks to its long-lasting intervention in Afghanistan, managed to contact several MTAs.

A. On the competitive bid analysis that was performed before selecting the MTA

In a report issued in January 2024 on the cash shipments to Afghanistan⁴⁶, SIGAR itself stated:

"(...) the Department of the Treasury (Treasury) blocked DAB from accessing its assets held in U.S. accounts, and international donors—including the U.S. government—and aid organizations suspended their funding and programming activities in Afghanistan. As a result, Afghanistan fell into economic and humanitarian crises. By early 2022, international donors and the UN agreed that assistance needed to resume to address the crises. However, sanctions on the Taliban and the isolation of Afghanistan's banking sector meant that implementing partners did not have reliable or sufficient cash-on-hand to purchase and deliver required goods and services throughout the country. To mitigate this issue, the UN, in consultation with the Departments of State (State) and Treasury, determined that it needed to transport U.S. currency into the country to pay for the operational and programming costs associated with delivering humanitarian assistance.

Since August 2021, the UN has purchased, transported, and transferred at least \$2.9 billion to Afghanistan using international donor contributions. The U.S. is the largest international donor, having provided about \$2.6 billion in funding for the UN, other PIOs, and NGOs operating in Afghanistan since August 2021. More than \$1.7 billion of that funding came from State and the U.S. Agency for International Development (USAID) to support humanitarian activities implemented by PIOs and NGOs, including the UN, the World Bank, and the Colombo Plan. However, SIGAR found that donors make contributions to pooled UN

⁴⁶ SIGAR 24-12 Evaluation Report – « Cash Shipments to Afghanistan: The UN Has Purchased and Transported More than \$2.9 Billion to Afghanistan to Implement Humanitarian Assistance” – January 2024; <http://www.usgic.mil/cvrf/evaluations/SIGAR-24-12-IE.pdf>

[REDACTED]

[REDACTED]

accounts, and individual donors—including State and US-AID—cannot determine how much of their contributions are used to purchase and transport cash for use in Afghanistan.

(...). The UN reported that it began purchasing and shipping cash because of Afghan banks' inability to participate in international wire transfers and Afghanistan's lack of domestic currency circulating throughout its economy."

The report adds that to alleviate the crises, Treasury's Office of Foreign Assets Controls issued 7 general licenses between November 2021 and February 2022 to clarify the sanctions regime and to allow international donors and aid organizations to resume humanitarian and development assistance in Afghanistan.

In the immediate aftermath of the fall of Kabul, [REDACTED] – who is a major humanitarian actor in Afghanistan – was one of the few aid organizations that maintained its assistance in the country.

Due to the collapse of the entire banking system and the international sanctions, [REDACTED] could not rely on its usual banking channels to bring in money to Afghanistan to finance these programs.

In emergency, it had no choice but to call on the services of MTAs to transfer cash from headquarters to Kabul. There were no other available means to transfer money for payment of operations and staff salaries, and to ensure the response to the crisis following the Taliban's takeover.

It is in these very specific and critical conditions that the MTA was selected by [REDACTED]

- On the selection procedure

Before and for months after the fall of Kabul, most of the established and up to Western standards merchants – and therefore MTAs – had fled. The ones remaining were very cautious and not very keen when [REDACTED] reminded them of the necessity of a comparative bidding analysis and the document flow that it requires.

In order to find a way to import funds, [REDACTED] performed the comparative bidding analysis but did not archive the comparison grid, so that if Taliban gunmen decided to raid their premises they would not easily identify and possibly threaten their MTAs.

Nevertheless, apart from archiving the grid, all and every steps necessary for the comparative bidding analysis were made: the IDs were collected, all anti-terrorist money laundering vetting was made, multiple MTAs were compared (6 in total)...

And of course, validation forms and contracts were signed.

Exhibit 14: MTA related documents of [REDACTED] mission in Afghanistan

[REDACTED]

[REDACTED]

Therefore, the only missing element is the document that could have allowed the Taliban to know in the blink of an eye who were [REDACTED] MTAs, and possibly endanger or pressure them, or monitor more closely [REDACTED] activity.

It must be reminded that the Taliban government had asked all non-governmental organizations (NGO) to stop employing female nationals, and that donors had strongly recommended not to comply.

Thanks to its proactive precautions, [REDACTED] could maintain its activities and keep most of its national staff.

It therefore appears that even if the grid was not filled, the agencies were nonetheless put in competition and the objectives of the grid fulfilled.

- On management's control over the selection of MTA

According to Conrad, [REDACTED] did not comply with regulation 2 CFR 200.303 – Internal Controls, stating in part that “*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 (...)*”.

However, [REDACTED] MTA Procedure stipulates in its Section 4 that final validation of the MTA will be done at HQ level. The validation form has to be signed by the Finance Controller and the Chief Financial Officer.

The procedure was more than respected in this instance, HQ having signed the MTA validation form.

In fact, given the importance of this MTA selection procedure, the validation form was signed not by the Chief Financial Officer but by the deputy CEO.

Exhibit 15. MTA validation form

Hence, [REDACTED] headquarters established and maintained effective internal control over the MTA selection by the mission in Afghanistan.

- On the non-applicability of [REDACTED] procurement guidelines

The auditors refer to PUF's Procurement Guidelines, Section 3.5, according to which the logistician has to request derogations when he/she thinks or realizes that it will not be possible to respect the standard procurement procedures.

However, these guidelines do not apply in this case as the use of MTAs does not fall under the standard procurement procedures.

Indeed, the MTA selection procedure is not a purchase procedure – meaning no purchase orders nor purchase requests for transfers are issued –, but is by definition a derogatory financial procedure from classic financial bank transfers, validated by the headquarters and used only in exceptional situations.

It means that the MTAs are used only when the usual bank transfers do not work, as was the case during the audited program.

It also means that filling the comparison grid is not absolutely compulsory, but mostly aims at analyzing and comparing the different criteria for a MTA validation.

Hence, a derogation request from the logistician did not have to be completed in this instance.

- BHA was duly informed of MTA selection

This situation was duly notified to BHA in an e-mail dated September 8, 2021 sent by █████ Middle East Desk Manager:

"I would also like to take this opportunity to let you know that █████ is currently striving to meet its financial commitments, especially towards our staffs (salaries) and suppliers. With the closure of banks and scarcity of cash available, PUI has signed contracts with 3 Money Transfer Agents (MTAs), following the agreed internal procedure – which includes all necessary counter-terrorism checks. Yet, MTAs do have a cost and a fee is applied to each transfer (from 5% to 8% depending on the MTA)."

On the same day, BHA's Program Officer – Afghanistan Complex Emergency Elevated Bureau Response, █████ replied to █████ Desk Manager on the other topics included in the e-mail.

█████ did not reply about the MTAs, which can be interpreted as tacit approval.

In any case, █████ fulfilled its obligations and warned BHA about the selection of 3 MTAs; it can not be held accountable for BHA's lack of explicit response to this information.

Exhibit 16: E-mail from █████ to BHA – September 8, 2021

B. On the transfer of the funds in question specifically to the audited Program

█████ does not use a specific bank account for each project, but works with a cash pooling system.

This has always been the case and is not in contradiction with BHA guidelines.

[REDACTED]

[REDACTED]

Between August 2021, when the banking system collapsed in Afghanistan, and October 2023, when it became possible to revert to the usual banking system, [REDACTED] was using MTAs as it was the only option to send funds to the fields.

It was not possible to transfer cash project by project.

The system of cash pooling for treasury applied the same logic during this period.

The transfers to a mission are not connected to a specific program, as [REDACTED] analytical accounting system allows to track all donor payments and all expenses related to the same project.

Also, the MTA fees are charged on a fair shared allocation among the on-going projects, while [REDACTED] controls that transfer fees charged on a specific program are in line with the percentage agreed with the MTA.

As mentioned in [REDACTED] financial report for this grant, 7 145K\$ (direct costs) have been spent on the field, those expenditures being done following HQ transfers applying a 5% commission on MTA during this specific period in which the grant has been achieved, with no bank available.

Considering the 5% MTA fees applied on transfers, a maximum of 357 k\$ should have been charged to the grant, which is the case as only 311 k\$ bank fees have eventually been charged on the audited Program.

Therefore, according to [REDACTED] principles, this threshold has been followed-up with a fair cost charged on this BHA program.

It is noted that [REDACTED] reverted to using the regular banking system and banking transfers as soon as it became possible, in October 2023.

Finally, it is recalled that Conrad raised the same issues in its precedent audit of [REDACTED]

However, after [REDACTED] explanations, Conrad did not declare these costs unsupported.

It is the same MTA that was contracted by [REDACTED] for the two programs, and for the same security reasons the comparison grid was also not archived by [REDACTED]

[REDACTED] asks Conrad to be consistent with its previous decision and to declare the same costs supported as well.

[REDACTED] stresses that changing decisions when facts are the same could breach the universal principle of right to a fair notice ("*sécurité juridique*" in European countries).

¹⁷ Grant no. [REDACTED]

III. On the Finding 2024-03, under which, according to Conrad, [REDACTED] insufficiently monitored its sub-awardees

Please find enclosed [REDACTED] and [REDACTED] responses to the issues raised under this finding.

Exhibit 17: [REDACTED] responses to Finding 2024-03
Exhibit 18: [REDACTED] responses to Finding 2024-03

IV. On the Finding 2024-04, under which, according to Conrad, travel costs charged to the Program were not sufficiently supported

On 17 instances, the auditors found that no official travel expense forms were provided, although [REDACTED] Afghanistan Human Resources (HR) Policy requires that such forms be filled out prior to a trip.

There seems to be a confusion related to the different status of PUI's employees.

- [REDACTED] Afghanistan HR Policy

[REDACTED] Afghanistan HR Policy states, in its article 1.1.2 – Scope of application:

“The Human Resources Policy apply to all [REDACTED] Afghanistan locally recruited employees”.

The same Policy states that:

“The employee may be required to conduct duties outside of his/ her duty station, as specified in his/ her employment contract and/ or job description.

In this regard, [REDACTED] Afghanistan shall cover the following expenses, as may be needed:

*Food (breakfast, lunch and/ or dinner)
Transportation
Accommodation
Mabram costs*

The request must be done filling in the Annex 7 prior to making the trip.”

In other words, the official travel request form must be filled for work related travels within Afghanistan. International travels falls under a different procedure called the Expatriates Guide.

Exhibit 19: [REDACTED] Afghanistan Human Resources Policy

¹⁸ Section 3.9.2 – Official Travel Expenses.

■ Expatriate Guide

Expatriate Guide applies to expatriate staff.¹⁹

In Section 1.3.3 – Travelling, the Guide states:

*“- Travel home / HQ / mission / HQ / home
(...)”*

The association also covers all the travel expenses from HQ/home (for expatriates who do not pass by HQ) to the assigned mission location and vice versa for the return. These expenses are in theory subject to a direct purchase by the association, or occasionally to an advance to justify or expense reports to reimburse. This includes:

- o Transportation between home/HQ and the international airport of departure/arrival, and to the base. This includes taxi costs.*
- o Round trip flight ticket for the assigned country, including secondary flight(s) in case the assignment region is not directly served.”*

Section 1.3.5 – On Holiday of the same Guide states:

*“The organization covers a return ticket to the expatriate's country of residence after 6, 12, 18, 24 months, etc. of assignment and under the condition that the expatriate agrees to continue her/his work for a minimum duration of 2 additional months:
(...)”*

The organisation covers in this situation:

- o International flight(s) to/from the international airport of the country of residence*
- o Secondary transportation costs to/from the airport/home*
- o Visa costs and potential taxes.”*

Hence, the travels to and from the mission location by expatriate staff – including before or after holidays – does not require to fill in an official travel request form.

Instead, in general, these expenses are subject to a direct purchase by ■ meaning the HR staff manages the flight tickets.

Exhibit 20: ■ Expatriate Guide

■ Application to the audited Program

A simple peek to the Table of Preliminary issues as of February 8, 2024 show that 8 instances contains the name of international airlines, 3 instances contain names of well-known international airports (Madrid, Doha, ...).

¹⁹ Preamble of the Expatriate Guide



The other contains either the month of travel (ex: T-12, January and March), and a 3-month travel does usually imply vacations, or the mention "RNR".

In addition, if the auditors compare the name of the travelers in question with the staff list provided by [REDACTED] they will find that – except for 2 instances - all the questioned travels are travels made by expatriate or HQ staff.

The 2 exceptions are [REDACTED] (HR Officer for Afghanistan) and [REDACTED] (Program officer for Afghanistan), who are not on the employee list, but are HQ staff dedicated to Afghanistan. As such, no travel request form had to be filled out either.

Exhibit 21: Employee List – [REDACTED] mission in Afghanistan

Therefore, there is no doubt that these instances are related to international travels and do not require an official travel request form prior to the travel, because as explained above, [REDACTED] HQ is directly buying the tickets.

The 17 instances identified by the auditors where no official travel request form was provided all relate to the travels of expatriate staff.

In consequence, in these 17 instances, no travel forms had to be filled out per [REDACTED] policies.



V. On the Finding 2024-05, under which, according to Conrad, ineligible costs were charged to the Program

On 1 instance, Conrad found that [REDACTED] charged twice the same transaction to the general ledger (duplicate transaction)²⁰:

However, these are not duplicate transactions.

On September 5, 2019, [REDACTED] signed a lease agreement for two adjoining buildings, composed of 27 rooms. The contract was signed with [REDACTED]

One building was dedicated to the guest house, the other one to the office.

Exhibit 22: Lease Agreement – 5 September 2019

At the beginning of 2020, PUI decided to separate the guest house from the office.

That is why, on February 20, 2020, PUI signed a new lease agreement for only one of the buildings, composed of 15 rooms.

The contract was signed with [REDACTED]

This new and separate lease agreement corresponds to the renting of the sole guesthouse.

Exhibit 23: Lease Agreement – 20 February 2020

There are two different lease agreements – one corresponding to [REDACTED] office (instance O-27), the other one to [REDACTED] guesthouse (instance O-28), in [REDACTED]

The two rents, corresponding to two different lease agreements, are paid separately.

However, the Afghani Ministry of Finance issued only one tax call for the two buildings, for the months of March and April 2022.

That is why the taxes – corresponding to the sum of the taxes related both to the office and the guest house – were paid by one single payment.

Also, the taxes due for the month of March 2022 were paid on April 26, 2022 – on the same day as the taxes due for the month of April 2022 were paid.

Exhibit 24: Tax call, funds transfer detail and statement of account – for March 2022

Exhibit 25: Tax call, funds transfer detail and statement of account – for April 2022

²⁰ O-27 and O-28



In conclusion, the two instances are not duplicate transactions – one corresponds to the rent payment for [redacted] office, the other one to [redacted] guest house, in [redacted]. As such, they are perfectly eligible costs.





VI. On the Finding 2024-06, under which, according to Conrad, inconsistent foreign exchange rates were used to incur costs billed to USAID

Under this finding, the auditors reproached two different things to [REDACTED] related to the calculation of the monthly average rate (A) and currency conversions (B).

As a preliminary remark, the very specific and difficult context in which the mission and transactions listed below were carried out must be recalled, as was detailed in part II. above.

A. On the calculation of the monthly average rate

In 2 instances, according to the auditors, [REDACTED] used an average exchange rate but did not maintain sufficient documentation to show how the monthly rate was calculated.

[REDACTED] disagrees with this finding for the following reasons.

[REDACTED] calculation method is extensively documented in the following, already provided to the auditors:

- PUT's Exchange Rates Calculation Procedure (7 pages);
- Tutorial for Exchange Rates Calculation.

Exhibit 26: [REDACTED] Exchange Rates Calculation Procedure
Exhibit 27: Tutorial for Exchange Rates Calculation

According to this method, the process of calculating the monthly exchange rates is carried out by the Financial and Administrative Coordinator (FAC), which is then checked at headquarters.

To be as accurate as possible, the FAC uses 3 different references to obtain the monthly exchange rate:

- [REDACTED]
- OANDA ²¹
- DAB. ²²

That is why, if the auditors use the InfoEuro monthly rate, they will not find the same rate as [REDACTED] when it used its software.

However, that does not mean the exchange rate used by [REDACTED] cannot be verified or recalculated – it does simply mean that the 3 above-mentioned references have to be taken into account when recalculating the rate.

In this specific instance, the two questioned transactions occurred on February 16, 2022 ²³.

²¹ Accessible here: [REDACTED]

²² Accessible here: <https://www.oanda.com/en-for-business/historical-rates>

²³ Accessible here: https://www.dab.gov.af/exchange-rates?field_date_value=09%2F16%2F2022

²⁴ P-20 and P-21



[REDACTED]

[REDACTED]

[REDACTED] provided the auditors with a screenshot of the [REDACTED] software showing February 2022's monthly average exchange rate USD/AFN, as well as the exchange rate calculation file for February 2022.

Exhibit 28: February 2022 exchange rate – Screenshot [REDACTED]
Exhibit 29: February 2022 exchange rate – Calculation file

It therefore appears that [REDACTED] explicitly documented and showed how the average exchange rate was determined and calculated – rate that can be recalculated if using the same 3 references.

It must be mentioned that [REDACTED] calculation of the monthly exchange rates has never been questioned by any auditor, by SIGAR or by USAID.

B. On currency conversions

The auditors alleged that in 5 instances, the costs incurred were invoiced in U.S. dollars (USD) and converted to AFN for payment using a daily exchange rate. When these costs were entered into the general ledger, the payment amount in AFN was then converted back to USD using a monthly exchange rate. This would have resulted in an overcharge of costs as the cost incurred to the Program should have been the USD amount listed on the original invoice.

[REDACTED] disagrees with this analysis.

Indeed, on November 2, 2021, the Taliban announced a complete ban on the use of foreign currency in Afghanistan.²⁵

In other words, the Taliban banned using USD as a currency in Afghanistan for all transactions. Therefore, everything in Afghanistan had to be paid in AFN.

Due to the high inflation and the extreme volatility of the local currency, it was impossible to set a price in AFN for transactions, not to mention the fact that suppliers and service providers refused it.

The quick devaluation of the local currency made it impossible to fix a price in AFN for more than a few days or weeks. This situation made it also impossible to do market analysis and bids in AFN, as the offered price would be valid only for a very short time. In this regard, specific supplies and works are per their nature paid in installment and delayed in time.

In these circumstances, the price was negotiated in USD, and then paid in AFN according to the daily USD/AFN exchange rate.

²⁵ <https://www.reuters.com/world/asia-pacific/taliban-ban-use-foreign-currency-afghanistan-2021-11-02/>



Hence, the amount in USD listed in the original invoice is not the amount paid, but the basis for the calculation for the actual amount to be paid in AFN.

The transaction in AFN was then converted in USD using the usual monthly exchange rate.

Given the very specific context recalled in part II. above, [REDACTED] had no other choice but to proceed this way in order to continue the vital aid it was providing to local populations after the fall of Kabul.

+ +
*

These are the observations made by [REDACTED] following Comrad's draft report under the present Program.

We ask you to take these into account, and to declare all questioned costs supported, eligible and allowable.

Thank you in advance for your attention.

Faithfully yours,

[REDACTED]
Lawyer






LIST OF EXHIBITS

- Exhibit 1: Table - Summary of Issues 2.8.24
- Exhibit 2:  Procedure for the Allocation of Shared Costs
- Exhibit 3: Audit Report – Federal Award Compliance Examination – 2012
- Exhibit 4: Draft letter from GRF to USAID – August 11, 2013
- Exhibit 5: Audit Report – Federal Award Compliance Examination – 2013
- Exhibit 6:  Procedure for implementing timesheets – March 22, 2022
- Exhibit 7: Description of process of Timesheet implementation on the  missions
- Exhibit 8: Deployment Diagram Timesheet for Afghanistan – 2024
- Exhibit 9:  Procedure for the Allocation of Shared Costs – Updated 2023
- Exhibit 10:  Programming 2024
- Exhibit 11: Air charter invoice
- Exhibit 12: Invoices
- Exhibit 13: Table summarizing the pharmaceutical items purchased
- Exhibit 14: MTA related documents of  mission in Afghanistan
- Exhibit 15: MTA validation form
- Exhibit 16: E-mail from  to BHA – September 8, 2021
- Exhibit 17:  responses to Finding 2024-03
- Exhibit 18:  responses to Finding 2024-03
- Exhibit 19:  Afghanistan Human Resources Policy
- Exhibit 20:  Expatriate Guide
- Exhibit 21: Employee List –  mission in Afghanistan
- Exhibit 22: Lease Agreement – 5 September 2019
- Exhibit 23: Lease Agreement – 20 February 2020
- 



Exhibit 24: Tax call, funds transfer detail and statement of account – for March 2022

Exhibit 25: Tax call, funds transfer detail and statement of account – for April 2022

Exhibit 26:  Exchange Rates Calculation Procedure

Exhibit 27: Tutorial for Exchange Rates Calculation

Exhibit 28: February 2022 exchange rate - Screenshot 

Exhibit 29: February 2022 exchange rate – Calculation file



[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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

[REDACTED] disagreed with Finding 2024-01, 2024-02, 2024-03, 2024-04, 2024-05 and 2024-06. Auditor's rebuttal to [REDACTED] responses received related to the audit findings identified in this report are presented below:

[REDACTED] stated that Conrad did not review all the documents and responses provided by [REDACTED] during and after fieldwork. For example, the latest preliminary issues provided to [REDACTED] on 02.08.2024 did not include the latest response from [REDACTED] on 12.08.2023.

Auditor's Rebuttal

Conrad reviewed and took into consideration the latest response and additional documentation provided on 12.08.2023. Much of the follow-up support provided was already reviewed during fieldwork and clearly communicated to [REDACTED] on why the support was still insufficient. We did not include [REDACTED] latest responses in our final preliminary issues update to [REDACTED] on 02.08.2024. However, the support provided was reviewed prior to our conclusion on the findings and drafting of the report.

(1) Finding 2024-01

[REDACTED] disagreed with this finding and indicated that the current cost share methodology used by [REDACTED] is equitable and has been reviewed and shared on a regular basis with the certified auditors in charge of auditing federal awards and other agencies without the conclusion that the methodology is not equitable.

In addition, [REDACTED] stated the questioned air charter invoice of \$625,000 was properly allocated based on the total value of medical equipment purchased.

[REDACTED] also stated three (3) of the instances questioned under other direct costs were items purchased exclusively and solely dedicated to the present Award.

[REDACTED] also mentioned [REDACTED] fair notice right was violated.

Auditor's Rebuttal:

[REDACTED] originally created and proposed the budget for this program to USAID using existing funding from concurrent programs in Afghanistan and a budget estimation on the administrative/shared costs under this program. As the programs begin and end, the budget-based allocations are updated accordingly on a prospective basis. However, as stated in the condition of this finding, there should be a reasonable allocation methodology or after-the-fact review to ensure the budget

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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

costs were reasonable and allocable. An example of a reasonable allocation can use actual direct program expenses incurred under each program monthly as the basis for allocating these administrative/share costs. Without a reasonable allocation methodology and simply charging the budgeted shared costs to the program leaves the possibility that shared costs incurred for multiple projects or activities may not be allocated according to proportional benefit. [REDACTED] provided follow-up documentation of the allocation methodology showing what they claimed to be allocation based on actual expenses toward the end of fieldwork. We reviewed the follow up documentation on the allocation and it was still based on budget as it appears.

[REDACTED] did provide a breakdown of the allocation for the \$625,000 air charter purchase. However, [REDACTED] did not provide invoices of the medical equipment purchased and transported on the air charter until after the preliminary exit meeting and at the completion of our audit fieldwork. In addition, [REDACTED] did not provide further evidence to demonstrate the medical equipment was in fact used for the different projects stated in the allocation breakdown.

The three (3) transactions purchased were for laptops for employees in the field office. During our fieldwork testing, we noted the majority, if not all, of the employees in the field office were shared employees who worked on multiple projects. It was unclear how the laptops purchased could be solely used for the Program. In addition, we reviewed the supporting documents provided for these three (3) transactions and found the trial of support were the same as other shared costs that were provided by [REDACTED]. For example, in the purchase request form, other shared costs tested and these three (3) transactions all reference to the same project code. There was no clear audit trail to demonstrate and for us to verify that the assets were solely purchased and used for the Program under audit.

In regard to the fair notice violation [REDACTED] mentioned, [REDACTED] allocation method based on budget estimates was developed in 2013. 2 CFR 200 was published and put into effect in 2014. There were requirements under 2 CFR 200 that [REDACTED] needs to be familiar with and followed as the Program under audit required to follow the 2 CFR 200 cost principles. It was clearly stated in the condition and criteria section of finding 2024-01 which 2 CFR 200 requirement PUI violated for using budget estimates as allocation methodology.

Due to the reasons stated, our finding and recommendation remain unchanged.

(2) Finding 2024-02

[REDACTED] stated due to the emergency in Afghanistan, it had no choice but to call on the service of MTAs to transfer cash from headquarters to Kabul. Due to the Taliban takeover in Afghanistan,

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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

most of the established and up to western standard merchants and MTAs had fled the country. The ones remaining were very cautious and wary when [REDACTED] reminded them of the necessity of a comparative bidding analysis and the document flow required. In order to import funds, [REDACTED] performed the comparative bidding analysis but did not archive the comparison grid to protect the identities of the MTAs. Apart from archiving the comparison grids, all other steps necessary for comparative bidding analysis were made by [REDACTED].

In addition, [REDACTED] disputed the transfer of funds relating to the audited Program. [REDACTED] does not use a specific bank account for each project but works with a cash pooling system. [REDACTED] analytical accounting system allows them to track all donor payments and all expenses related to the same project.

Auditor's Rebuttal:

[REDACTED] did not provide any documentation of approval from the funding agency to deviate from standard procurement procedures due to the emergency situation in Afghanistan. For the purposes of our review, [REDACTED] is still required to document comparative bidding analysis for all vendors unless told otherwise. In addition, [REDACTED] did not provide any documentation to show that funds transferred from their cash pooling system were transferred solely for the Program under audit. Due to the lack of documentation provided, we were unable to verify whether the MTAs were selected using an adequate comparative bidding process and whether the funds transferred by the MTAs were related solely to the Program under audit. Due to the reasons stated, our finding and recommendation remain unchanged.

(3) Finding 2024-03

[REDACTED] submitted responses from their sub awardees for each of the questioned transactions.

Auditor's Rebuttal:

The finding and recommendations are related to controls surrounding [REDACTED] monitoring of sub awardees. [REDACTED] did not provide any management response to these aspects of the finding and recommendation. The responses to each questioned transaction by the sub awardee does not address the finding and recommendation. In addition, these responses from the sub awardees should be provided during fieldwork so the auditor can further evaluate each transaction in question. Therefore, we will not consider the additional responses submitted by [REDACTED] sub awardees for the purposes of the report. Our finding and recommendation remain unchanged.

(4) Finding 2024-04

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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

[REDACTED] stated that official travel request forms must be filed for work related to travels within Afghanistan and that international travel falls under a different procedure from the Expatriate Guide. [REDACTED] stated that per the Expatriate Guide, an official travel request form is not required since these expenses are directly purchased and managed by HR staff. [REDACTED] did not address any of the other issues identified in Finding 2024-04 in their response.

Auditor's Rebuttal:

The travel request form is a key document used to initiate travel. [REDACTED] Expatriate Guide does not mention a travel request form, or any other document used to initiate and document the purpose of travel. Due to this we have considered [REDACTED] Expatriate Guide to be deficient and our finding and recommendation remain unchanged.

(5) Finding 2024-05

[REDACTED] stated that the two transactions charged to the Program under other direct costs are not duplicate transactions. The transactions are for two (2) different lease agreements; one corresponding to [REDACTED] office and the other for [REDACTED] guest house in [REDACTED]. The two (2) rents, corresponding to two (2) different lease agreements, are paid separately. [REDACTED] did not address any of the other issues identified in Finding 2024-05 in their response.

Auditor's Rebuttal:

Upon further review, Conrad concludes that the two (2) transactions are not duplicates and are for two (2) separate lease agreements. We have updated Finding 2024-05 to remove the instance of duplicate costs. However, as the guest house is a shared cost, the transaction has been added to Finding 2024-01 as the cost was not properly allocated between multiple projects.

(6) Finding 2024-06

[REDACTED] stated the exchange rates are calculated using an average monthly exchange rate from [REDACTED], OANDA, and Da Afghanistan Bank. [REDACTED] stated that a screenshot of the [REDACTED] software showing February 2022's monthly average exchange rate was provided.

In addition, [REDACTED] disagrees with the finding regarding currency conversion in instances where costs were invoiced in U.S. dollars (USD), converted to AFN for payment using a daily exchange rate, and converted back to USD when entered in the general ledger. [REDACTED] stated that the Taliban announced a complete ban on the use of foreign currency in Afghanistan on November 2, 2021. This resulted in high inflation and extreme volatility of the local currency which made it impossible to set a price in AFN for transactions for more than a few days or weeks.

(Continued)

[REDACTED]

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

[REDACTED]
[REDACTED] of Afghanistan

For the Period of August 1, 2021, through March 31, 2023

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

Auditor's Rebuttal:

[REDACTED] provided links to [REDACTED], OANDA, and Da Afghanistan Bank, however, we were not able to locate the AFN-USD exchange rate from [REDACTED]. As such, we were unable to confirm if the average rate used was correct. Due to the lack of support for the exchange rate source, we used the monthly exchange rate from InforEuro to determine the reasonableness of the exchange rate used to charge costs to the Program. [REDACTED] average rate used was significantly higher when comparing the monthly exchange rate from InforEuro.

Regarding currency conversion issue for costs invoiced in USD, the issue here is directly related to what [REDACTED] charged to the US government. If the invoices were stated in USD, then the amount charged to the US government should be the USD amount. The internal conversion done by [REDACTED], and any gain or loss from the conversion, were not applicable to these transactions in question. Due to the reasons stated, our finding and recommendation remain unchanged.

(Continued)

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