

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 24-28 Financial Audit**

Department of State's Project 31-32  
Baghlan-Kandahar: Audit of Costs Incurred  
by the Demining Agency for Afghanistan



JUNE  
2024

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On June 10, 2020, the U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State), awarded a 12-month, \$4,422,320 grant to the Demining Agency for Afghanistan (DAFA) in support of Project 31-32 Baghlan-Kandahar. The project's goal was to create conditions where landmines and other explosive remnants of war in Afghanistan do not present safety risks for civilians or hinder the development and productive use of land in Baghlan and Kandahar provinces. The initial period of performance was June 15, 2020, through June 14, 2021. State modified the grant once, which extended the period of performance through September 30, 2021, but did not change the total award amount.

SIGAR's financial audit, performed by KPMG LLP (KPMG) reviewed \$4,422,320 in costs charged to the grant from June 15, 2020, through September 30, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DAFA's internal controls related to the grant; (2) identify and report on instances of material noncompliance with the terms of the grant and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DAFA has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAFA's Special Purpose Financial Statement (SPFS). See KPMG's report for the precise audit objectives.

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

June 2024

## Department of State's Project 31-32 Baghlan-Kandahar: Audit of Costs Incurred by the Demining Agency for Afghanistan

SIGAR 24-28-FA

### WHAT SIGAR FOUND

KPMG identified three deficiencies in DAFA's internal controls and two instances of noncompliance with the terms of the award. KPMG found that DAFA calculated life insurance costs charged to State using a daily rate instead of a monthly rate, as prescribed by the grant, and used an average rate to allocate administrative costs instead of allocating costs based on actual hours worked. KPMG also found that in 8 of 55 payroll transactions sampled, DAFA's rates of pay did not align with those stated in the budget. DAFA was notified of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, KPMG identified \$1,603 in total questioned costs, consisting entirely of \$1,603 in ineligible costs—costs prohibited by the grant and applicable laws and regulations, and no unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Fringe Benefits	\$1,603	\$0	\$1,603
<b>Total Costs</b>	<b>\$1,603</b>	<b>\$0</b>	<b>\$1,603</b>

KPMG identified two prior audit reports that were relevant to DAFA's award. The reports contained seven findings and accompanying recommendations that could have had a material effect on the SPFS. KPMG conducted follow-up procedures and concluded that DAFA had not taken adequate corrective action on two of the seven findings as they were repeated under the current audit.

KPMG issued an unmodified opinion on DAFA's SPFS, noting that it presents fairly, in all material respects, revenues, costs incurred, and balances for the period audited.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible Agreement Officer at State:

1. **Determine the allowability of and recover, as appropriate, \$1,603 in questioned costs identified in the report.**
2. **Advise DAFA to address the report's three internal control findings.**
3. **Advise DAFA to address the report's two noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

June 13, 2024

The Honorable Antony J. Blinken  
Secretary of State

Ms. Jessica Lewis  
Assistant Secretary State for Political-Military Affairs

We contracted with KPMG LLP (KPMG) to audit the costs incurred by the Demining Agency for Afghanistan (DAFA) under a grant from the U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State), in support of Project 31-32 Baghlan-Kandahar.<sup>1</sup> The project's goal was to create conditions where landmines and other explosive remnants of war in Afghanistan do not present safety risks for civilians or hinder the development and productive use of land in Baghlan and Kandahar provinces. KPMG reviewed \$4,422,320 in costs charged to the grant from June 15, 2020, through September 30, 2021. Our contract with KPMG required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible Agreement Officer at State:

- 1. Determine the allowability of and recover, as appropriate, \$1,603 in questioned costs identified in the report.**
- 2. Advise DAFA to address the report's three internal control findings.**
- 3. Advise DAFA to address the report's two noncompliance findings.**

KPMG discusses the results of the audit in detail in the attached report. We reviewed KPMG's report and related documentation. We also inquired about KPMG'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 DAFA's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. KPMG is responsible for the attached auditor's report, dated March 21, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with U.S. 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](mailto: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-272)

<sup>1</sup> The grant number is SPMWRA20GR0044.



**DEMINING AGENCY FOR AFGHANISTAN (DAFA)**

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
Awarded by the U.S. Department of State  
Office of Weapons Removal and Abatement

For the period June 15, 2020 to September 30, 2021

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KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

**Transmittal Letter**

March 21, 2024

Special Inspector General for Afghanistan Reconstruction (SIGAR)  
2350 Crystal Drive  
Arlington, Virginia 22202

KPMG LLP (we or our) hereby provide to you our final report, which reflects results from the procedures we completed during our audit of the Demining Agency for Afghanistan's (DAFA) Special Purpose Financial Statement (Statement) for costs incurred under Award No. SPMWRA20GR0044 (Award or grant agreement) awarded by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State) for the period June 15, 2020 to September 30, 2021, in support of Department of State's Project 31-32: Baghlan-Kandahar.

On October 31, 2023, we provided SIGAR with a draft report reflecting our audit procedures and results. DAFA received a copy of the report on February 13, 2024, and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with other written and oral feedback provided by SIGAR and DAFA. DAFA's written responses and our corresponding auditor responses are incorporated as appendices.

Thank you for providing us the opportunity to work with you and to conduct the audit.

Sincerely,

**KPMG LLP**

## DEMINEING AGENCY FOR AFGHANISTAN

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
Awarded by the U.S. Department of State  
Office of Weapons Removal and Abatement

### Background

On June 10, 2020, the Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement awarded Demining Agency for Afghanistan (DAFA) a \$4,422,320 grant in support of State's Project 31-32: Baghlan-Kandahar. The goal of the project was to create conditions where landmines and other explosive remnants of war in Afghanistan did not present safety risks for civilians or hinder the development and productive use of land. The purpose of the grant was to conduct munitions clearance and return land to targeted communities in the Baghlan and Kandahar provinces. The grant's initial period of performance was June 15, 2020 through June 14, 2021. The grant was modified once, extending the period of performance through September 30, 2021, with no change to the total award amount.

### Summary of Award

Award No.	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Budget (\$)	Start	End	No. of Modifications	Final Approved Budget (\$)	End
SPMWRA20GR0044	\$4,422,320	6/15/2020	6/14/2021	1	No Change	9/30/2021

### Work Performed

KPMG LLP (KPMG) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of DAFA's Special Purpose Financial Statement (SPFS) for award no. SPMWRA20GR0044 (award or grant agreement) for the period June 15, 2020 to September 30, 2021. The total revenue earned and costs incurred reported by DAFA were \$4,422,320.

### Objectives, Scope, and Methodology

#### Audit Objectives Defined by SIGAR

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

- *Internal Controls* – Evaluate and obtain a sufficient understanding of DAFA's internal controls related to the award, assess control risk, and identify and report on significant deficiencies and material internal control weaknesses.
- *Special Purpose Financial Statement* – Express an opinion on whether DAFA's SPFS for the award presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Compliance* – Perform tests to determine whether DAFA complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material

## DEMING AGENCY FOR AFGHANISTAN

Financial Audit of Costs Incurred Under  
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noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether DAFA 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 includes all revenues earned and costs incurred during the period June 15, 2020 to September 30, 2021, related to Afghanistan funding within Award No. SPMWRA20GR0044, with a total incurred cost of \$4,422,320. This is a closeout audit as the end of the period of performance occurred during the audit period.

### **Methodology**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

#### *Entrance Conference*

An entrance conference was held on May 8, 2023, with representatives of DAFA, KPMG, SIGAR, and State participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, and to establish key contacts, responsibilities, and communication protocols. We also discussed the timeframe for the completion of the audit.

#### *Planning*

During the planning phase, we performed the following:

- Obtained an understanding of DAFA's organizational structure, entity-level controls, and internal controls related to the award;
- Reviewed the grant agreement and subsequent modification, including approved direct labor rates;
- Reviewed State and other regulations that are applicable to the grant agreement;
- Performed inquiries of those charged with governance, management, and others regarding risks of material misstatement;
- Reviewed previous DAFA audited annual financial statements;
- Reviewed previous audit reports, other internal audit reports, and consultant reports related to our audit objectives;
- Reviewed close-out requirements and evidence supporting close-out procedures performed; and
- Selected samples based on our sampling techniques, and in accordance with our approved audit plan.



## **DEMING AGENCY FOR AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
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### *Internal Controls Related to the Grant Agreement*

We obtained an understanding of DAFA's system of internal control related to the grant agreement, to understand the entity and its environment, identify and assess the risks of material misstatement of the SPFS, and assist in designing the nature, timing, and extent of further audit procedures. Our procedures included inquiries with management and control operators, inspection of policies and procedures defining the controls, and inspection of evidence of control performance in accordance with defined policies and procedures.

### *Special Purpose Financial Statement*

We reconciled the revenues earned and costs incurred on the SPFS to the grant agreement and underlying accounting information. We selected transactions from the transactional detail and performed procedures to determine whether the transactions were accurately recorded, consistent with grant agreement requirements, allocable to the grant agreement, and incurred during the period of performance covered by the grant. We also evaluated whether the SPFS included all informative disclosures necessary for the fair presentation of the SPFS.

### *Compliance with the Grant Requirements and Applicable Laws and Regulations*

We obtained an understanding of relevant provisions of the grant agreement, laws, and regulations, noncompliance with which could have a direct and material effect on the SPFS. We performed tests to identify instances of noncompliance with these relevant provisions of the grant, laws, and regulations that may have a material effect on the SPFS. These tests included procedures to determine whether costs were reasonable, allocable, and allowable under the terms of the grant agreement.

### *Corrective Action on Prior Findings and Recommendations*

We considered prior DAFA audit report findings that could have a significant effect on the SPFS or other financial data significant to the audit objectives, which included discussing the report and findings with management, reviewing evidence of revised policies and procedures, and other applicable recommended corrective actions contained within the report. We used this information to assess risk and determine the nature, timing, and extent of our audit procedures, including determining the extent to which testing the implementation of the corrective actions was applicable to the audit objectives.

### *Exit Conference*

An exit conference was held on October 3, 2023, via conference call. Participants included representatives from KPMG, DAFA, SIGAR, and State. During the exit conference, we discussed the preliminary results of the audit and reporting process.

## **Summary of Results**

We summarized our results below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

### *Auditors' Opinion on the SPFS*

We issued an unmodified opinion that the SPFS presents fairly in all material respects, the revenues, costs incurred and outstanding fund balance.

**DEMING AGENCY FOR AFGHANISTAN**

Financial Audit of Costs Incurred Under  
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The findings identified \$1,603 in total questioned costs, comprised entirely of ineligible costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the grant agreement provisions or applicable laws and regulations, or are not related to the grant agreement. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. However, we did not identify any unsupported costs.

*Internal Control Findings*

We reported on DAFA’s internal controls over financial reporting relevant to the SPFS. We identified three internal control findings that were determined to be control deficiencies in DAFA’s internal controls. In performing our testing, we considered whether the information obtained resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. We did not identify evidence of material fraud, waste, or abuse as a result of our testing. See Independent Auditor’s Report on Internal Control over Financial Reporting on page 14.

The three internal control deficiencies identified were not material weaknesses or significant deficiencies; therefore, they are not reported in the Independent Auditor’s Report on Internal Controls under *Government Auditing Standards*. However, these deficiencies are included as Finding 2023-01, 2023-02 and 2023-03 in the Schedule of Findings and Questioned Costs and the table below.

*Compliance Findings*

We reported on DAFA’s compliance with laws, regulations, and the grant agreement relevant to the SPFS. We did not identify instances of noncompliance subject to reporting under *Government Auditing Standards* in the Independent Auditors’ Report on Compliance and Other Matters on page 16.

We did identify two instances of noncompliance with relevant provisions of the grant agreement that have a less than material effect on the SPFS, individually and in the aggregate. A material effect would indicate that DAFA did not present fairly, in all material respects, the revenues earned and costs incurred for the grant agreement during the performance period in accordance with the relevant provisions of the grant agreement. Because these instances do not have a material effect on the SPFS, they are not reported in the Independent Auditors’ Report on Compliance and Other Matters under *Government Auditing Standards*. However, these instances of noncompliance are included as Finding 2023-02 and 2023-03 in the Schedule of Findings and Questioned Costs and the table below.

Finding Number	Finding Name	Classification	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2023-01	Ineffective Controls Over Payroll Processing	Internal Control Deficiency	\$0*	\$0	\$0

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Finding Number	Finding Name	Classification	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2023-02	Ineffective Controls Over the Calculation of Life Insurance Costs	Non-compliance and Internal Control Deficiency	\$1,603	\$0	\$1,603
2023-03	Ineffective Controls Over the Allocation of Indirect Charges	Non-compliance and Internal Control Deficiency	\$0*	\$0	\$0
<b>Total Questioned Costs</b>			<b>\$1,603</b>	<b>\$0</b>	<b>\$1,603</b>

\* See Schedule of Findings for additional information on questioned costs for 2023-01 and 2023-03.

*Review of Prior Findings and Recommendations*

We inquired of DAFA, SIGAR, and State personnel regarding whether there were reports related to previous engagements. We noted two prior audit reports that contained seven findings and recommendations that could have a significant effect on the SPFS or other financial data significant to the audit objectives. Based on the results of our audit procedures, we determined that DAFA had not taken adequate corrective action to address all findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives. See Status of Prior Audit Findings on page 22 for a detailed description of the prior findings and recommendations.

*Auditee Response*

DAFA provided a response to the conditions communicated in our audit findings. While DAFA did not dispute the factual accuracy of the findings, they did provide information regarding their business practices, and requested the reconsideration and removal of the questioned cost and observations related to Findings 2023-01, 2023-02, and 2023-03. Below is a summary of DAFA’s response to our audit report. See Appendix A for the full response and Appendix B for the auditor’s rebuttal.

- Finding 2023-01: Ineffective Controls over Payroll Processing. DAFA provided additional details regarding what they asserted were unique circumstances in their payroll business process, noting no employee received compensation beyond the rates specified and approved in the donor-approved budget. DAFA also described planned remediation steps.
- Finding 2023-02: Ineffective Controls over the Calculation of Life Insurance Costs. DAFA acknowledged they used a daily rate to calculate insurance costs instead of the monthly rate as outlined in the budget narrative but maintained that the identified discrepancies were immaterial and fell within an acceptable range as deemed by the donor. DAFA also described planned remediation steps.

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- Finding 2023-03: Ineffective Controls over the Allocation of Indirect Charges. DAFA provided context and clarification regarding the cost allocation process and described planned remediation steps.



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Demining Agency for Afghanistan  
Kabul, Afghanistan

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

### Report on the Audit of the Special Purpose Financial Statement

#### *Opinion*

We have audited the Special Purpose Financial Statement – contractual basis of Demining Agency for Afghanistan (DAFA) for the period June 15, 2020 to September 30, 2021, and the related notes to the Statement (the Statement) with respect to Award No. SPMWRA20GR0044 (grant agreement) for the Department of State's Project 31-32: Baghlan-Kandahar.

In our opinion, the accompanying Statement referred to above presents fairly, in all material respects, the revenues, costs incurred, and outstanding fund balance for DAFA for the grant agreement for the period June 15, 2020 to September 30, 2021, in accordance with the relevant provisions of the grant agreement.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of DAFA, 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.

#### *Emphasis of Matter — Basis of Accounting*

We draw attention to Note 2 of the Statement, which describes the basis of accounting. The Statement is prepared by DAFA on the basis of the relevant provisions of the grant agreement referred to above, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the relevant provisions of the grant agreement referred to above. The basis of accounting incorporates the Statement presentation requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR) as allowed by SIGAR's authority. As a result, the Statement may not be suitable for another purpose. 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 this Statement in accordance with the relevant provisions of the grant agreement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.



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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DAFA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Statement.

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

### *Restriction on Use*

Our report is intended solely for the information and use of DAFA, the Department of State, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated February XX, 2024 on our consideration of DAFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is solely 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 the effectiveness of DAFA's 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 DAFA's internal control over financial reporting and compliance.

**KPMG LLP**

Washington, DC  
March 21, 2024

**DEMINING AGENCY FOR AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
Awarded by the U.S. Department of State  
in support of "Department of State's Project 31-32: Baghlan-Kandahar"

**Special Purpose Financial Statement<sup>1</sup>**

For the Period June 15, 2020 to September 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Cost</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenue:						
Grant	\$ 4,422,320	4,422,320				3
Total revenue	4,422,320	4,422,320				
Costs incurred:						4
Personnel	1,785,380	1,786,412	—	—	—	
Fringe benefits	1,225,977	1,228,165	1,603	—	1,603	(A)
Travel	13,318	11,422	—	—	—	
Supplies	448,440	447,894	—	—	—	
Other operating expenses	596,749	596,216	—	—	—	
Indirect cost	352,456	352,211	—	—	—	
Total costs incurred	4,422,320	4,422,320	1,603	—	1,603	
Outstanding fund balance	\$ —	—				

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

<sup>1</sup> See Notes to the Special Purpose Financial Statement and Notes to Questioned Costs Presented on the Special Purpose Financial Statement. The Questioned Costs Presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes and as such are not part of the audited Special Purpose Financial Statement.

## DEMINEING AGENCY FOR AFGHANISTAN

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
Awarded by the U.S. Department of State  
in support of "Department of State's Project 31-32: Baghlan-Kandahar"

### Notes to the Special Purpose Financial Statement<sup>2</sup>

#### **(1) Status and Operation**

Demining Agency for Afghanistan (DAFA) is one of the Humanitarian Mine Clearance Non-Government Organization (NGO) formed under the auspices of United Nation Office for the coordination of Humanitarian Assistance to Afghanistan (UNOCHA) in June 1990.

Its head office is located in Kabul Afghanistan with two project offices in Kabul and Kandahar. DAFA is ISO Certified for Quality Management (ISO 9001-2015) and is a known organization in the field of mine action in Afghanistan. DAFA is accredited for implementation of mine action projects by United Nations Mine Action Service for Afghanistan (UNMAS) and Directorate of Mine Action Coordination of Afghanistan (DMAC) and registered as NGO with the Ministry of Economy of Islamic Republic of Afghanistan.

The rationale behind establishment of DAFA was the critical need for supporting the demining projects to be executed in Afghanistan. Since establishment to date (1990- 2023), the main donors are United States Department of State, (USDOS PM/WRA), United Nations, Federal Republic of Germany, United Kingdom, Government of Japan, European Commission, and Canada.

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

##### ***(a) Basis of Accounting***

The Special Purpose Financial Statement (Statement) has been prepared to recognize revenues when earned and costs when incurred that are allowable in accordance with the cost principles of Title 2, Part 200 and 600 of the Code of Federal Regulations and the terms of the Grant Award No. SPMWRA20GR0044 (agreement).

##### ***(b) Basis of Presentation***

The information in the Statement is presented in accordance with the requirements of the aforementioned agreement as specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) as allowed by SIGAR's authority. Because the Statement presents only a selected portion of the operations of DAFA, it is not intended to, and does not present the financial position, net income, changes in equity, or cash flows of DAFA. The Statement may not be suitable for another purpose.

##### ***(c) Budgeted versus Actual Revenues and Costs Incurred***

Budgeted revenues and budgeted costs incurred are based on the final funded amounts per the grant agreement. Actual revenues and costs incurred represent revenues earned and costs incurred as described in the Basis of Accounting above.

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<sup>2</sup> These notes to the Special Purpose Financial Statement are the responsibility of DAFA.



**DEMINEG AGENCY FOR AFGHANISTAN**

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
Awarded by the U.S. Department of State  
in support of “Department of State’s Project 31-32: Baghlan-Kandahar”

**(d) Foreign Currency Conversion**

Funds are received by DAFA in U.S. dollars (USD) directly into DAFA’s bank account. For purposes of preparing the Statement, conversions from local currency to USD were not required. DAFA maintains the funds in USD and does not have a local Afghani account. When local currency is needed, the required funds are converted from USD to local currency and the amount is recorded in USD using the actual exchange rate from the bank on the date of the conversion.

**(3) Revenues**

DAFA reported revenues earned of \$4,422,320 for the period June 15, 2020 to September 30, 2021.

**(4) Cost Categories**

The cost categories and associated amounts presented reflect the budget line items for which allowable costs are eligible for reimbursement as defined by the grant agreement and subsequent modifications for the period June 15, 2020 to September 30, 2021.

**DEMING AGENCY FOR AFGHANISTAN**

Financial Audit of Costs Incurred Under  
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Awarded by the U.S. Department of State  
in support of “Department of State’s Project 31-32: Baghlan-Kandahar”

Notes to Questioned Costs Presented on the  
Consolidated Special Purpose Financial Statement<sup>3</sup>

**(A) Fringe Benefits**

DAFA reported \$1,228,165 in fringe benefits. We noted DAFA recorded life insurance costs in a manner inconsistent with the approved budget narrative. The budget narrative required insurance costs to be calculated on a monthly basis, but DAFA recorded insurance costs on a daily basis. This resulted in ineligible fringe benefits costs of \$1,603. See Finding No. 2023-02 in the Schedule of Findings and Questioned Costs section of this report.

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<sup>3</sup> 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.



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

**Independent Auditors' Report on Internal Control Over Financial Reporting Based on an Audit of a Special Purpose Financial Statement Performed in Accordance With *Government Auditing Standards***

Demining Agency for Afghanistan  
Kabul, Afghanistan

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

We have audited, 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, the Special Purpose Financial Statement – contractual basis of the Demining Agency for Afghanistan (DAFA) for the period June 15, 2020 to September 30, 2021, and the related notes to the Statement (the Statement) with respect to Award No. SPMWRA20GR0044 for the Department of State's Project 31-32: Baghlan-Kandahar. We have issued our report thereon dated March 21, 2024.

**Report on Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of DAFA's Statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



**Purpose of This Report**

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

KPMG LLP

Washington, DC  
March 21, 2024



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

**Independent Auditors' Report on Compliance and Other Matters  
Based on an Audit of a Special Purpose Financial Statement Performed in  
Accordance With *Government Auditing Standards***

Demining Agency for Afghanistan  
Kabul, Afghanistan

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

We have audited, 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, the Special Purpose Financial Statement — contractual basis of the Demining Agency for Afghanistan (“DAFA”) for the period June 15, 2020 to September 30, 2021, and the related notes to the Statement (the Statement), with respect to Award No. SPMWRA20GR0044 for the Department of State’s Project 31-32: Baghlan-Kandahar. We have issued our report thereon dated March 21, 2024.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether DAFA’s Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

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

**KPMG LLP**

Washington, DC  
March 21, 2024

## DEMING AGENCY FOR AFGHANISTAN

Financial Audit of Costs Incurred Under

Award No. SPMWRA20GR0044

Awarded by the U.S. Department of State

in support of "Department of State's Project 31-32: Baghlan-Kandahar"

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

### **Finding 2023-01: Ineffective Controls over Payroll Processing**

**Nature of Finding:** Internal control – Control Deficiency

**Condition:** DAFA did not design and implement effective controls over the processing of payroll transactions during the period under audit. As a result, we identified certain exceptions during our payroll testing. Specifically, we tested 55 payroll transactions valued at \$238,170, out of a population of 431 valued at \$1,786,412 to determine whether the incurred labor costs were allowable and allocable to the grant agreement. Based on our testing, we identified 8 instances where employees were paid according to the rates in their personnel files, but those rates did not align with agreed upon rates in the budget narrative for the employee's position.

**Criteria:**

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."

DAFA's Human Resources (HR) Policies and Procedures, states in part:

2.1.1 – "As a responsible institution and a responsible employer, it is incumbent upon DAFA to create, update and maintain separate Personnel File for each staff and consultant."

2.1.2 – "Updated personnel file also enables DAFA to have complete information about its staff and consultants which facilitates knowing the employee better and developing a good institutional relationship."

**Cause:** DAFA did not enforce requirements to update and maintain accurate personnel files that agree with the approved budget narrative and did not properly review the agreed upon rates prior to billing the Department of State.

**Effect:** Ineffective controls to validate salary rates prior to billing for personnel costs increases the risk that DAFA will bill State for ineligible costs.

**Questioned Costs:** There were no questioned costs identified because the net deficiency identified above resulted in a DAFA underpayment of \$305. As such it is not presented in the table of questioned costs.

**Recommendation:** We recommend that DAFA design and implement procedures to ensure approved budget rates are recorded in the personnel files and the billing of labor costs is correct.

## DEMINING AGENCY FOR AFGHANISTAN

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### **Finding 2023-02: Ineffective Controls over the Calculation of Life Insurance Costs**

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

**Condition:** DAFA did not design and implement effective controls over fringe benefits. As a result, 3 of the 3 transactions we tested out of a total population of 9 (valued at \$73,563 out of a population valued at \$207,240) were not calculated correctly. We determined that DAFA was billing life insurance using a daily cost rate instead of the monthly cost rate as prescribed by the budget narrative.

**Criteria:**

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... (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings..."

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

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards...(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items..."

Budget Narrative for 19. PMWRA Afghanistan. Project 31 - 32 (Baghlan and Kandahar Provinces), Section B – Fringe Benefits: Life Insurance Justification, states in part:

"All personnel need to be covered under life insurance, the rate as per DAFA contract with Insurance Company is fixed as US\$ 38 per month per person category I and \$ 26 Category II, it is full death and accident premium (Staff x US\$ 38, 26 x month)."

**Cause:** Management did not identify risks related to the calculation of life insurance costs. Specifically, DAFA employees did not consult the approved budget narrative prior to recording and billing life insurance costs. DAFA management did not identify the need for a control to ensure the approved budget narrative was used to calculate life insurance costs prior to recording and billing life insurance costs.

**Effect:** Ineffective controls to validate that insurance costs are properly calculated risks DAFA billing State outside the terms of the award and misstates the SPFS.8

**Questioned Costs:** The deficiency identified above resulted in ineligible costs of \$1,603.

**Recommendation:**

1. We recommend that DAFA provide supporting documentation to demonstrate that \$1,603 incurred costs claimed were correctly billed to the task order or return the ineligible amount to the Department of State.

**DEMINING AGENCY FOR AFGHANISTAN**

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Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

- 
2. We recommend that DAFA develop and implement review policies and procedures to ensure fringe benefits rates align with rates authorized by the State prior to billing the US Government.



## DEMNING AGENCY FOR AFGHANISTAN

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### **Finding DAFA-2023-03: Ineffective Controls over the Allocation of Indirect Charges**

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

**Condition:** Controls for calculating indirect administrative costs did not operate effectively. As a result 4 of the 5 transactions we tested valued at \$33,405, out of a population of 491 valued at \$352,211 to determine if indirect costs were allowable and allocable to the grant agreement were not calculated correctly. We identified four instances in which DAFA used an average rate to allocate administrative costs various projects when it should have allocated costs based on actual hours worked on the project.

**Criteria:**

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

"...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..."

DAFA's Finance Manual, states in part:

8.5.1 – "Salaries and wages must be charged to projects in accordance with the actual hours an employee worked on a project. Allocations should not be based on budget estimates, but should reflect an after-the-fact determination of actual time. When an employee works on more than one project, the employee's salary must be distributed on the basis of the time worked on behalf of each project as a percentage of total time worked."

**Cause:** DAFA personnel were not adequately trained to follow DAFA's policies and procedures to calculate the correct indirect cost rate. Management did not adequately review personnel's calculations to ensure compliance with DAFA's policies and procedures.

**Effect:** Ineffective monitoring and review of the indirect charge calculations, in accordance with documented policies and procedures, increases the risk of incorrect billings and that DAFA will bill State for ineligible costs.

**Questioned Costs:** There were no questioned costs identified as the net deficiency identified above resulted in \$15 of unbilled eligible costs. As such it is not presented in the table of questioned costs.

**Recommendation:**

1. We recommend that DAFA effectively train and communicate policies and procedures outlined in the finance manual to personnel responsible for calculating and recording indirect charges to ensure personnel costs are billed to State based on the approved rates.

**DEMINING AGENCY FOR AFGHANISTAN**

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We recommend DAFA implement controls to review calculations performed by staff to ensure they are in compliance with DAFA's policies and procedures.

## DEMING AGENCY FOR AFGHANISTAN

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### Status of Prior Audit Findings

We inquired from DAFA, SIGAR and State personnel regarding reports related to previous engagements that directly related to the objectives of the audit. Based on the results of these inquiries, we noted two prior audit reports, Financial Audit 20-04 and Financial Audit 21-38, that contained seven findings and recommendations that could have a significant effect on the Special Purpose Financial Statement and other financial data significant to the audit objectives. We conducted follow up procedures to assess risk and determine the nature, timing, and extent of audit procedures. Based on the results of such procedures, we determined that DAFA did not take corrective action on two of the previous findings and therefore they were repeated under this audit. The remaining five findings are closed. Corrective actions and the status of the findings are summarized below:

Audit Report: SIGAR 20-04 Financial Audit, "Department of State's Demining and Munitions Clearance Projects in Afghanistan: Audit of Costs Incurred by the Demining Agency for Afghanistan for the Period of March 15, 2013 – September 24, 2018, which was conducted by Conrad LLP, and issued on August 15, 2019

- **Finding No. 2019-02: DAFA Lacked Evidence to Support the Adequacy of Costs Incurred** – The audit firm identified two circumstances in which ineligible costs were charged to the Task Order, which included:
  - a. Conrad judgmentally selected 1,760 timesheets for testing. In one instance, the personnel activity report (PAR), or timesheet, was not provided. This resulted in \$604 of questionable payroll costs.
  - b. Conrad judgmentally selected 2,333 of transactions for Equipment, ODC, and Supplies Testing. In 30 instances, DAFA provided personnel items such as blankets, uniforms, shoes, and coats to its employees, but lacked employee's acknowledgement of receiving these goods, which totaled \$13,722.

**Status** – DAFA updated their policies and procedures to ensure adequate personnel support was maintained. The current audit engagement did not identify similar issues.

- **Finding No. 2019-03: DAFA Claimed Ineligible Items** – The audit firm identified nine circumstances in which ineligible costs were charged to the Task Order, which included
  - a. Five instances in which commissions were paid to property and money dealers for renting properties and cash transferring between buyers and suppliers, which totaled \$272.
  - b. One instance in which cost associated with Mine Action for International Women's Day Celebration was claimed totaling \$200.
  - c. One instance in which a machine rental for demining purposes was charged totaling \$2,500.
  - d. 13 instances in which job positions were paid for that had not been included in the proposed budget. Six positions were not included in the proposed budget and seven positions were funded that exceeded the number authorized, for a combined total of \$3,212.
  - e. One instance in which a 4.5 KV Electric Generator was purchased for one of DAFA's field offices and was 100% charged to a grant totaling \$350.
  - f. One instance in which accounting software was purchased and charged 100% to a grant totaling \$1,348.

## DEMING AGENCY FOR AFGHANISTAN

Financial Audit of Costs Incurred Under  
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- g. 51 instances in which employee' salary rate claimed exceeded the authorized pay rate proposed and approved totaling \$2,557.
- h. 17 instances in which Rents, Utilities, Internets, Uniforms, etc., claimed exceeded the authorized rate proposed and approved totaling \$2,296.
- i. For five of the grants tested, the indirect cost claimed exceeded the indirect cost rate approved, totaling \$5,102.

**Status** – DAFA indicated that many of the items questioned were normal expenses for the Grants' operations the items were approved under a general budget category excess rates were due to unexpected changes through the life of the Grants, and that some of the items were misclassified. No further documentation was provided to evidence approval of the excess rates or costs claimed. The current audit engagement identified similar issues. As such, DAFA did not implement corrective actions. See Finding 2023-01 of this audit report.

- **Finding No. 2019-04: DAFA Did Not Adhere to Afghanistan Tax Law** – The audit firm identified one circumstances in which ineligible costs were charged to the Task Order, which included:
  - a. 213 instances where DAFA did not withhold taxes from supplier purchases or from landlord for rent as required by the Afghanistan Tax Law.

**Status** – DAFA updated their Finance Manual (SOP) to ensure their policies and procedures adhere to Afghanistan Tax Law. During the current audit testing of expenditures, we did not identify instances of non-compliance with Afghanistan Tax Law.

**Report: SIGAR 21-38 Financial Audit, "Department of State's Deming and Munitions Clearance Projects in Afghanistan: Audit of Costs Incurred by the Deming Agency for Afghanistan for the Period: April 1, 2018 – July 31, 2020, which was conducted by Conrad LLP, and issued on April 20, 2021**

- **Finding No. 2020-01: Vendor Cash Payments and Procurement Transactions Lacked Proper Approval, Which Demonstrated a Lack of Adherence to DAFA's Internal Policies** – The audit firm identified two circumstances in which ineligible costs were charged to the Task Order, which included:
  - a. For 13 transactions tested, DAFA's office Headquarters located in Kabul transferred funds via bank to its field offices, which are located outside of Kabul. The transferred funds were used to make cash payments for rental vehicle services. The payments in question each exceeded \$500. The field office staff made the cash payments to the individual vendors but did not obtain approval as each individual transaction was completed. The costs have not been questioned, as there was other documented evidence to support that the cost had been properly incurred.
  - b. For eight transactions tested, it was noted that Purchase Requisition Forms were not approved by the Director as required by DAFA's procurement policy. These transactions occurred in DAFA field offices located outside of Kabul. There are no questioned costs, as there was other documentation supporting the allowability and allocability of the costs.

**Status** – DAFA did not concur with this finding. During our audit, we did not find instances of where procurements or payments were not approved in accordance with DAFA's policies.

## DEMINING AGENCY FOR AFGHANISTAN

Financial Audit of Costs Incurred Under  
Award No. SPMWRA20GR0044  
Awarded by the U.S. Department of State  
in support of "Department of State's Project 31-32: Baghlan-Kandahar"

- **Finding No. 2020-02: DAFA Lacked Sufficient Evidence to Support the Adequacy of Costs Incurred**
  - The audit firm identified four circumstances in which ineligible costs were charged to the Task Order, which included
    - a. Four transactions where there was no evidence the vendor/payee acknowledged receipt of payment. The transactions identified included machine tires and lubricants totaling \$4,779.
    - b. One transaction lacked an original vendor invoice for supplies totaling \$95.
    - c. Two invoices, paid by DAFA, were not issued to or addressed in DAFA's name. The transactions totaled \$86.
    - d. Two transactions lacked documentation demonstrating DAFA received goods prior to vendor payment. The items identified totaled \$237.

**Status** – DAFA did not concur with this finding. During our audit, we did not find instances where procurements or payments were not approved in accordance with DAFA's policies.

- **Finding No. 2020-03: DAFA Paid for Salaries That Were Not Supported by the Budget and Purchases Exceeding Authorized Amounts**
  - The audit firm identified two circumstances in which ineligible costs were charged to the Task Order, which included:
    - a. Six transactions where DAFA paid employees at rates higher than what was approved in the budget. Additionally, DAFA employed a guard whose position had not been included in the approved budget. This resulted in total ineligible costs of \$1,027.
    - b. Three transactions where the number of goods purchased were more than what was requested in the purchase requisition form for a total of \$36.

**Status** – The previous auditor noted that DAFA paid employees at rates higher than what was approved in the budget and DAFA employed a guard whose position had not been included in the approved budget. DAFA responded by explaining that they have not exceeded the budget by more than ten percent and that the positions were essential to completing the project. However, this does not mitigate that the budget was not followed and all employees were not appropriately documented. The current audit engagement identified similar issues. As such, it appears this issue has not been properly corrected. See Finding 2023-01 of this audit report.

- **Finding No. 2020-04: DAFA Did Not Adhere to Afghanistan Tax Laws**
  - The audit firm identified two circumstances in which ineligible costs were charged to the Task Order, which included:
    - a. One transaction where DAFA did not withhold taxes from employee salaries in the month of May 2018 and also noted four transactions where DAFA did not withhold taxes from contractor services as required by the Afghanistan Tax Law. In the case of the contractor services, it was confirmed that DAFA had acquired services in excess of AFN 500,000 from the contractors in question during the applicable fiscal year.

**DEMING AGENCY FOR AFGHANISTAN**

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**Status** - DAFA updated their Finance Manual (SOP) to ensure their policies and procedures adhere to Afghanistan Tax Law. During the current audit test work of expenditures, we did not identify instances of non-compliance with Afghanistan Tax Law.

## APPENDIX A: DAFA'S RESPONSES TO AUDIT FINDINGS

Included below are DAFA's responses to the findings presented in this report. DAFA's responses were not subjected to the other auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the responses.

### **Finding 2023-01: Ineffective Controls over Payroll Processing**

**Management's Response:** In the dynamic environment of project execution, we frequently encounter resignations and vacancies among our team members. To ensure continuity and efficiency, we adopt a strategic approach by promoting experienced and capable staff from within our existing workforce to fill these positions promptly. This approach allows us to maintain operational stability and harness the expertise of our team members.

For example, when a team leader resigns after 10 days into the month, they are compensated only for the actual days worked. In such cases, a section leader with extensive practical experience and familiarity with the work may be promoted to the role of team leader, resulting in compensation for 20 days in the same month. Similarly, when a section leader resigns, a deminer with a profound understanding of the responsibilities may be elevated to the position of section leader.

The observed variations in employee rates stem from our practice of compensating employees based on the actual days worked, a measure taken to ensure fairness and alignment with our donor-approved budget. While these adjustments may lead to fluctuations in monthly rates as individuals transition between roles, it is crucial to note that no employee receives compensation beyond the rates specified and approved in the donor-approved budget.

Our promotions are made with careful consideration of employees' skills, experience, and suitability for the roles they assume. These adjustments are well within the framework of the designated roles outlined in our donor-approved budget. We want to emphasize that our meticulous payroll system is designed to ensure strict compliance with the approved budget salary rates. At no point does any employee receive payment exceeding the approved rates, and each staff member is compensated fairly in line with their designated roles and responsibilities as per the Project personnel listing.

We remain committed to adhering to the guidelines set forth by the U.S. Government and our donor, maintaining complete transparency in our financial transactions, and ensuring the efficient and ethical use of project funds.

DAFA Management will rigorously consider the auditors' observations. We will refrain from implementing any promotions or demotions within the current month, opting instead to enact such changes at the start of each subsequent month. This recommendation has been communicated to the senior management and HR department, who will take appropriate action accordingly. Our dedication to upholding the integrity of our financial practices remains unwavering.

In light of the above, we respectfully request the reconsideration and removal of the observation in question.

## APPENDIX A: DAFA'S RESPONSES TO AUDIT FINDINGS

### **Finding 2023-02: Ineffective Controls over the Calculation of Life Insurance Costs**

**Management's Response:** The observation specifically notes discrepancies in the calculation of life insurance premiums, highlighting that 3 out of the 3 transactions tested exhibited inaccuracies. It is acknowledged that the variance arose due to the use of a daily cost rate instead of the monthly cost rate as outlined in the budget narrative.

The State-approved budget for life insurance premiums was meticulously prepared by DAFA, utilizing a monthly average forecast based on thirty days as the calculation basis. We emphasize that the rates presented in the budget narrative serve as projections, subject to potential deviations from the actual rates applied by the insurance company based on the approved contract. Notably, these discrepancies may occur due to variations in the number of insured days, especially in months with 31 days.

It is crucial to highlight that the deviation in the calculation methodology, specifically the use of a daily rate, stems from compliance with the guidelines set forth by the US State Department (USDOS). The daily rate is determined by dividing the monthly amount by 30 days, as approved by USDOS. The error in question arose from months with 31 days, resulting in an extra day (the 31st date) being factored into the calculation.

While we recognize the importance of precision in financial reporting, we want to assure you that the identified discrepancies are immaterial and fall within an acceptable range as deemed by the donor. Nevertheless, we appreciate the opportunity to enhance our processes further.

DAFA is committed to maintaining a robust financial monitoring and control process. We conduct periodic reviews and reconciliations to ensure the accuracy and consistency of our financial statements. In response to your observation, we are taking proactive measures to refine our forecasting methodologies and strengthen communication channels between our finance team and insurance providers. By doing so, we aim to align all our future budgeted rates more closely with actual costs in future budget preparations, thereby minimizing discrepancies.

In light of the above, we respectfully request the reconsideration and removal of the question cost and observation in question.



## APPENDIX A: DAFA'S RESPONSES TO AUDIT FINDINGS

### **Finding 2023-03: Ineffective Controls over the Allocation of Indirect Charges**

**Management's Response:** At DAFA, we are committed to upholding the highest standards of financial management and ensuring fair cost allocation across all ongoing projects. I would like to provide context and clarification on the specific issues highlighted in your observation.

The challenge we encounter lies in certain positions, such as office guards, drivers, receptionists, and storekeepers, whose responsibilities often extend beyond specific project boundaries. These employees play crucial roles in the overall functioning of our organization and frequently engage in tasks that may not be directly tied to a single project. Their dynamic responsibilities require flexibility in cost allocation, as accurately tracking every hour spent on each project is logistically challenging and may not reflect the true nature of their contributions. This dynamic nature makes assigning specific hours to each project impractical and potentially inaccurate.

In recognition of these challenges, we have implemented a share cost policy outlined in our finance SOP. This policy allows us to allocate and charge an average number of hours for positions with versatile roles, taking into consideration the size and scope of the project or grant. The goal is to strike a balance between precision and practicality, ensuring that indirect administrative costs are distributed equitably across all projects.

It is important to note that these positions contribute significantly to the organization's overall efficiency, responding to immediate operational needs and ensuring the smooth flow of resources. Their ability to switch between various projects is essential for maintaining operational fluidity, and assigning specific hours to each project may prove impractical given the dynamic nature of their responsibilities.

In light of the above, we respectfully request the reconsideration and removal of the question cost and observation in question.

In light of your findings, we will review our procedures to identify opportunities for improvement in the effectiveness of our controls for calculating indirect administrative costs. We are committed to addressing any deficiencies and enhancing our processes to align with industry best practices.

## APPENDIX B: AUDITOR'S REBUTTAL TO DAFA'S RESPONSES TO AUDIT FINDINGS

### **Finding 2023-01: Ineffective Controls over Payroll Processing**

**Nature of Finding:** Internal control – Control Deficiency

**Response:** DAFA did not dispute the factual accuracy of the finding. DAFA provided additional details regarding what DAFA asserted were unique circumstances in their payroll process. Specifically, DAFA asserted that the finding was the result of employees transitioning between roles in the middle of a month. While the compensation rates agreed to the donor-approved budget they did not agree to DAFA's personnel files, nor was there evidence that these individuals had transitioned to a new billed role. Additionally, we noted that DAFA's planned corrective action did not address our recommendation or the root cause, and will not remediate the deficiency. As such, our finding, classification of the finding, and recommendation remain unchanged.

### **Finding 2023-02: Ineffective Controls over the Calculation of Life Insurance Costs**

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

**Response:** DAFA did not dispute the factual accuracy of the finding, acknowledging that they used a daily rate to calculate insurance costs instead of the monthly rate outlined in the budget narrative. DAFA asserted that the rates presented in the budget were meant to serve as projections and their use of daily rates stemmed from compliance with guidelines set forth by State which accommodated variations in the number of days in a month. DAFA did not provide evidence of this accommodation. DAFA noted that the identified discrepancies were immaterial and fall within an acceptable range as deemed by the Donor. DAFA's response does not change the fact that they used rates that were not approved in the budget narrative. As DAFA did not dispute the factual accuracy of the condition and cause of the finding, our finding, classification of finding, and recommendation remain unchanged.

### **Finding 2023-03: Ineffective Controls over the Allocation of Indirect Charges**

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

**Response:** DAFA noted difficulties in allocating costs among employees whose responsibilities extended beyond specific project boundaries. To address the issue, they indicated they had implemented a cost-share policy to allocate labor hours for positions with versatile roles. While it may be acceptable for DAFA to apply an alternative method to allocating costs by project, the cost-share policy was not in place for the period under audit. Further, DAFA should have tracked and allocated costs based on the actual hours worked on each project in accordance with its written policies. As such, our finding, classification of finding, and recommendation remain unchanged.

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- improve contracting and contract management processes;
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## SIGAR's Mission

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