

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 24-39 Financial Audit**

## USAID's Strengthening Education in Afghanistan Program: Audit of Costs Incurred by The Asia Foundation



SEPTEMBER  
2024

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On May 19, 2014, the U.S. Agency for International Development (USAID) Mission to Afghanistan awarded a 5-year, \$29,835,920 cooperative agreement to The Asia Foundation (TAF) to support the Strengthening Education in Afghanistan (SEA II) program. The objectives of the program were to improve the capacity, operations, management, and programming of educational institutions and civil society organizations in Afghanistan. USAID modified the agreement 19 times, extending the period of performance from May 18, 2019, through December 31, 2023, and increasing the total award amount to \$49,828,942.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$7,896,916 in costs incurred under the agreement from October 1, 2020, through December 31, 2023. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in TAF's internal controls related to the cooperative agreement, (2) identify and report on instances of material noncompliance with the award's terms and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether TAF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of TAF's Special Purpose Financial Statement (SPFS). See Castro's report for the precise audit objectives.

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

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September 2024

### USAID's Strengthening Education in Afghanistan Program: Audit of Costs Incurred by The Asia Foundation

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SIGAR 24-39-FA

### WHAT SIGAR FOUND

Castro identified one deficiency in TAF's internal controls and one instance of noncompliance with the terms of the cooperative agreement. Specifically, the auditors found that TAF had exceeded the budgeted amounts for travel and other direct costs, but TAF did not report them to or request prior approval from USAID. In addition, TAF was unable to provide the required written approval for the overrun of other direct costs, which was greater than 10 percent of the estimated amount of the award. TAF was notified of the deficiency and compliance issues prior to publication of this report.

Castro did not identify any questioned costs related to the internal control deficiencies or noncompliance.

Castro identified nine prior audit reports that were relevant to TAF's agreement. Of these nine reports, seven reports contained seven findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. Castro conducted follow-up procedures and determined that TAF had taken adequate corrective action on all prior findings.

Castro issued an unmodified opinion on TAF's SPFS, noting it presents fairly, in all material respects, the revenue received, costs incurred and balances for the audit period.

### WHAT SIGAR RECOMMENDS

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

- 1. Advise TAF to address the report's internal control finding.**
- 2. Advise TAF to address the report's noncompliance finding.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

September 30, 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 Castro & Company LLC (Castro) to audit the costs incurred by The Asia Foundation (TAF) under a cooperative agreement from the U.S. Agency for International Development (USAID) to support the Strengthening Education in Afghanistan (SEA II) program.<sup>1</sup> The objectives of the program were to improve the capacity, operations, management, and programming of education institutions and civil society operations in Afghanistan. Castro reviewed \$7,896,916 in costs incurred under the award from October 1, 2020, through December 31, 2023. Our contract with Castro required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Advise TAF to address the report's internal control findings.**
- 2. Advise TAF to address the report's noncompliance findings.**

Castro discusses the results of the audit in detail in the attached report. We reviewed Castro's report and related documentation. We also inquired about Castro's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on TAF's Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Castro is responsible for the attached auditor's report, dated July 26, 2024, and the conclusions expressed therein. However, our review disclosed no instances where Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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-281)

<sup>1</sup> The agreement number is AID-306-A-14-00008-00.



**The Asia Foundation  
Strengthening Education in Afghanistan (SEA II)  
Cooperative Agreement No. AID-306-A-14-00008-00  
Financial and Closeout Audit of Costs Incurred  
of the Special Purpose Financial Statement  
For the Period of October 1, 2020 through December 31, 2023  
(With Independent Auditor's Report Thereon)**

**August 21, 2024**

**The Asia Foundation**  
**Strengthening Education in Afghanistan**  
**Financial and Closeout Audit of Costs Incurred**  
**For the Period of October 1, 2020 through December 31, 2023**

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# Transmittal Letter

August 21, 2024

To the Board of Trustees and Management of The Asia Foundation  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 941104

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

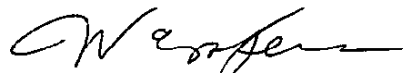
We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during our audit of the Special Purpose Financial Statement (the Statement) applicable to The Asia Foundation's (TAF) Cooperative Agreement No. AID-306-A-14-00008-00 with the United States Agency for International Development (USAID), funding the Strengthening Education in Afghanistan program (SEA II) for the period of October 1, 2020 through December 31, 2023.

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

When preparing our report, we considered comments, feedback, and interpretations of TAF, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses were incorporated as **Appendix A** to this report.

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

Sincerely,



Wayne Ference, CPA, Partner  
Castro & Company, LLC

**The Asia Foundation**  
**Financial and Closeout Audit of Costs Incurred**  
**Cooperative Agreement No. AID-306-A-14-00008-00**  
**For the Period of October 1, 2020 through December 31, 2023**

## Summary

### Background

On May 19, 2014, the United States Agency for International Development, Mission to Afghanistan (USAID) awarded a cooperative agreement (Cooperative Agreement No. AID-306-A-14-00008-00), to The Asia Foundation (TAF) to support the Strengthening Education in Afghanistan (SEA II) program. The initial performance period of this cooperative agreement was from May 19, 2014 to May 18, 2019. Through 19 modifications, the total estimated amount increased from \$29,835,920 to \$49,828,942, and the total obligated amount increased from \$2,267,041 to \$49,828,942. Additionally, the end date of the performance period was extended to December 31, 2023. The overall objective of the SEA II program is to improve institutional capacity, operations, management, and programing of educational institutions and civil society organizations in Afghanistan that implement activities in line with higher and basic education needs of Afghanistan as expressed in the Ministry of Higher Education (MoHE) and Ministry of Education (MoE) strategic plans. The SEA II program aimed to assist Afghan education institutions and non-governmental organizations with the development and strengthening of their programmatic activities through technical assistance, training, and financial support.

Our audit procedures included a review of total costs incurred of \$7,896,916 reported by TAF. The audit's scope included activity within the period of October 1, 2020 through December 31, 2023, inclusive of closeout procedures.

### Work Performed

Castro & Company, LLC (Castro) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial and closeout audit of TAF's Special Purpose Financial Statement (the Statement) for costs incurred under Cooperative Agreement No. AID-306-A-14-00008-00 to support the SEA II program for the period of October 1, 2020 through December 31, 2023.

### Objectives Defined by SIGAR

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

#### *Audit Objective 1 – Internal Controls*

Evaluate and obtain a sufficient understanding of TAF's internal control related to the cooperative agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

**The Asia Foundation**  
**Financial and Closeout Audit of Costs Incurred**  
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*Audit Objective 2 – Special Purpose Financial Statement*

Express an opinion on whether the Statement for the cooperative agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the cooperative agreement and generally accepted accounting principles or other comprehensive basis of accounting.

*Audit Objective 3 – Compliance*

Perform tests to determine whether TAF complied, in all material respects, with the cooperative agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the cooperative agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.

*Audit Objective 4 – Corrective Action on Prior Findings and Recommendations*

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

## Scope

The scope of our audit included total reported costs incurred of \$7,896,916 for the period of October 1, 2020 through December 31, 2023. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Statement. The audit also included an evaluation of the presentation, content, and underlying records of the Statement. Further, the audit included reviewing the financial records that support the Statement to determine if there were material misstatements and if the Statement was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Budgetary Compliance;
- Allowable Activities and Costs;
- Cash Management;
- Eligibility;
- Procurement;
- Inventory Management;
- Reporting;
- Compliance; and
- Subrecipient Monitoring.

Castro designed our audit steps and procedures in accordance with *Government Auditing Standards*, Chapter 6, Standards for Financial Audits.



**The Asia Foundation**  
**Financial and Closeout Audit of Costs Incurred**  
**Cooperative Agreement No. AID-306-A-14-00008-00**  
**For the Period of October 1, 2020 through December 31, 2023**

**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 June 30, 2023 via a conference call. Participants included representatives from Castro, TAF, and SIGAR. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

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

Audit Objective 1 – Internal Controls

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

Audit Objective 2 – Special Purpose Financial Statement

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

**The Asia Foundation**  
**Financial and Closeout Audit of Costs Incurred**  
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**For the Period of October 1, 2020 through December 31, 2023**

Audit Objective 3 – Compliance

Castro reviewed the cooperative agreement issued by USAID to identify criteria against which to test the Statement. Using a combination of random and judgmental sampling techniques, Castro selected transactions, vouchers for payment submitted to USAID, procurements, government property, and reports for testing. Supporting documentation was provided by TAF and evaluated to assess TAF’s compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the Negotiated Indirect Cost Rate Agreement’s issued by USAID. Additionally, we performed closeout audit procedures, included, but not limited to, assessing whether cash receipts exceeded revenue earned, final physical inventories were performed, and government property was properly disposed of in accordance with the Government’s directives.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Exit Conference

An exit conference was held on July 17, 2024 via a conference call. Participants included representatives from Castro, TAF, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

**Summary of Results**

Upon completion of Castro’s procedures, we issued an unmodified opinion on the Statement, noting that it presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the period audited. We also reported on TAF’s internal control and compliance with cooperative agreement terms, laws, and regulations.

Castro also reported on both TAF’s internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement. One deficiency in internal control was identified. This finding was also classified as an instance of noncompliance. In situations in which control and compliance findings pertained to the same

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matter, the findings were consolidated within a single finding. See Independent Auditor’s Report on Internal Control on page 14 and Independent Auditor’s Report on Compliance on page 17.

In response to the identified instance of noncompliance, Castro did not identify any questioned costs. SIGAR requires questioned costs to be classified as either “ineligible” or “unsupported.” SIGAR defines ineligible costs as those that are explicitly questioned because they are unreasonable, prohibited by the audited cooperative agreement or applicable laws and regulations, or that are unrelated to the cooperative agreement. Unsupported costs are those that are not supported with adequate documentation or did not have the required prior approvals or authorizations.

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

Castro also requested copies of prior audits, reviews, and evaluations pertinent to TAF’s financial performance under this cooperative agreement. Based on Castro’s communications with TAF, SIGAR, and USAID, Castro reviewed nine audit reports. Seven of the reports contained a total of 24 findings and recommendations. We assessed the findings to ascertain whether these findings may be direct and material to the Statement or other significant financial data to the audit objectives. During our review of the audit findings, we noted seven findings that could have a potential direct or material impact on the program. Castro conducted procedures to determine whether adequate corrective action had been taken on the prior findings. Accordingly, Castro determined that TAF had implemented sufficient corrective action for all seven prior-year findings that directly or significantly affected the program. See **Schedule II: Summary Schedule of Prior Audit, Review, and Assessment of Findings**.

The following summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

**Summary of Findings and Questioned Costs**

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2024-01	Deviation from the Approved Budget Without Approval from the Agreement Officer	Internal Control Deficiency and Noncompliance	\$ -
<b>Total Questioned Costs</b>			<b>\$ -</b>

**Summary of Management Comments**

The following represents a summary of the response provided by TAF to the finding identified in this report. The complete response received can be found in **Appendix A**.

**The Asia Foundation**  
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**For the Period of October 1, 2020 through December 31, 2023**

1. **Finding 2024-01:** TAF management partially agreed with the finding, stating that the activity costs were duly approved by USAID under a different line item.

Castro's rebuttal to TAF's response can be found in **Appendix B**.

## **Independent Auditor's Report on the Special Purpose Financial Statement**

To the Board of Trustees and Management of The Asia Foundation (TAF)  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 941104

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

### ***Opinion***

In accordance with the terms of the cooperative agreement and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR), we have audited the accompanying Special Purpose Financial Statement (the Statement) of TAF and the related notes to the Statement, with respect to Cooperative Agreement No. AID-306-A-14-00008-00 awarded by the United States Agency for International Development, Mission to Afghanistan (USAID/Afghanistan) to support the Strengthening Education in Afghanistan (SEA II) program, for the period of October 1, 2020 through December 31, 2023. In our opinion, the Statement presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of October 1, 2020 through December 31, 2023, in accordance with the terms of the cooperative agreement and requirements provided by SIGAR.

### ***Basis for Opinion***

We conducted our audit in accordance with U.S. generally accepted government auditing standards. 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 TAF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis of Presentation and Accounting***

We draw attention to Notes 1 and 2 to the Statement, which describes the basis of presentation and the basis of accounting. As described in Note 1 to the Statement, the Statement is prepared by TAF 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***

TAF management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements provided by SIGAR. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Statement that 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 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 U.S. generally accepted 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 U.S. generally accepted 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 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.

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

In accordance with U.S. generally accepted government auditing standards, we have also issued our reports dated July 26, 2024 on our consideration of TAF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the cooperative 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 U.S. generally accepted government auditing standards in considering TAF's internal control over financial reporting and compliance and should be read in conjunction with this report in considering the results of our audit.

This report is intended for the information of The Asia Foundation, the United States Agency for International Development, and the Office of 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 the United States Congress and to the public by the Office of the Special Inspector General for Afghanistan Reconstruction in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Castro & Company, LLC*

Alexandria, VA  
July 26, 2024

**The Asia Foundation  
 Financial Audit of Costs Incurred  
 Grant No. AID-306-A-14-00008-00  
 For the Period of October 1, 2020 through December 31, 2023**

**Special Purpose Financial Statement**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
Award AID-306-A-14-00008-00	\$ 49,828,942	\$ 7,896,916	\$ -	\$ -	1, 2, 4
<b>Total Revenue</b>	<b><u>49,828,942</u></b>	<b><u>7,896,916</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	
<i>Costs Incurred</i>					
Salaries	8,182,611	2,230,766	-	-	5
Travel	1,710,918	399,735	-	-	-
Materials and Supplies	1,365,016	164,229	-	-	-
Contractual Services	19,978,426	390,315	-	-	-
Other Direct Costs	13,527,532	3,617,588	-	-	-
Indirect Costs	5,064,439	1,103,989	-	-	-
Cost Transfer	-	(9,706)	-	-	-
<b>Total Costs Incurred</b>	<b><u>49,828,942</u></b>	<b><u>7,896,916</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	
<b>Outstanding Balance</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>			<b>6</b>

See Notes to the Special Purpose Financial Statement



**The Asia Foundation**  
**Financial Audit of Costs Incurred**  
**Grant No. AID-306-A-14-00008-00**  
**For the Period of October 1, 2020 through December 31, 2023**

**Notes to the Special Purpose Financial Statement**

**Note 1. Basis for Presentation**

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under Cooperative Agreement No. AID-306-A-14-00008-00 for the Strengthening Education in Afghanistan II (SEA II) program for the period October 1, 2020 through December 31, 2023 with specific audit review for the period mentioned above. Because the Statement presents only a selected portion of the operations of The Asia Foundation (TAF), it is not intended to and does not present the financial position, changes in net assets, or cash flows of TAF. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General For Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned Federal award AID-306-A-14-00008-00. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Revenues and expenditures reported on the Statement are reported on modified accrual basis of accounting. Expenditures are recognized following the cost principles contained in 2 Code of Federal Regulations 200, wherein certain types of expenditures are not allowable or limited as to reimbursement.

**Note 3. Foreign Currency Conversion Method**

For purposes of preparing the Schedule, conversions from local currency to the U.S. dollars are not required. The Asia Foundation draws funds from the United States Agency for International Development (USAID) on a reimbursement basis and transfers funds from headquarters accounts wherein funds are maintained in U.S. dollars to the financial institutions utilized by local offices.

The local financial institutions handle the conversion of funds to local currency for payment purposes. When recording payments made in local currency, these transactions are recorded as U.S. dollars in TAF's books. Every week, the TAF Afghanistan office transfers the necessary amount from its U.S. dollar account to its local currency account to fulfill the weekly payment requirements. The bank's exchange rate for converting from U.S. dollars to local currency is applied in the weekly transaction batches. This ensures that the official bank rate is used to convert local currency payments to their equivalent in U.S. dollars for reporting to USAID. As a result, the project ledger shows local currency payments in equivalent U.S. dollars based on the weekly exchange rates.

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**For the Period of October 1, 2020 through December 31, 2023**

**Note 4. Revenues**

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

**Note 5. Costs Incurred by Budget Category**

The budget categories and corresponding amounts shown represent the budget line items included in the final approved cooperative agreement budget, which were incorporated as part of the funding from Modification 19 to the cooperative agreement dated February 15, 2023.

In the Statement, TAF disclosed a Cost Transfer related to USAID's recovery of disallowed costs amounting to \$9,706 as outlined in Audit Report No. 8-306-20-037-N for Cooperative Agreement AID-306-A-14-00008.

**Note 6. Balance**

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the cooperative agreement and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and \$7,896,916 of revenue earned may be made.

**Note 7. Currency**

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

**Note 8. Program Status**

The SEA II program concluded on December 31, 2023.

**Note 9. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the period, October 1, 2020 through January 31, 2024 covered by the Statement. Management has performed their analysis through July 26, 2024.

**Note 10. Program Income**

Program income was not earned under the SEA II program during the period October 1, 2020 through December 31, 2023. However, in August 2022, TAF received payment for its claim on assets lost in August 2021. Per the U.S. International Development Finance Corporation guidelines, a portion of the refund proceeds were credited to U.S. Government awards active as of

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August 2021. Accordingly, \$95,407 was credited to the SEA II program funds, applying a “weighted project hours” approach.

**Independent Auditor's Report on Internal Control over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with Government Auditing Standards**

To the Board of Trustees and Management of The Asia Foundation (TAF)  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 941104

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

We have audited the Special Purpose Financial Statement (the Statement) prepared by TAF under Cooperative Agreement No. AID-306-A-14-00008-00 to support the Strengthening Education in Afghanistan (SEA II) program, for the period of October 1, 2020 through December 31, 2023, and related notes to the Statement, and have issued our report thereon dated July 26, 2024 with an unmodified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit of the Statement, we considered TAF's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

***Results of Our Consideration of Internal Control over Financial Reporting***

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of TAF's internal control over financial reporting. Given these limitations, during our audit of the Statement, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

During our audit of the Statement, we identified one deficiency in internal control for the period of October 1, 2020 through December 31, 2023 that we do not consider to be a material weakness or significant deficiency. Nonetheless, these deficiencies warrant TAF management's attention. We have communicated these matters to TAF management, which are described in the accompanying **Schedule of Findings and Questioned Costs** as Finding Number 2024-01.

***TAF's Response to Findings***

TAF's response to the finding identified in our audit is included verbatim in **Appendix A** within this report. TAF's response was not subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it.

### ***Basis for Results of Our Consideration of Internal Control over Financial Reporting***

We performed our procedures related to TAF's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

### ***Responsibilities of Management for Internal Control over Financial Reporting***

TAF management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibilities for Internal Control over Financial Reporting***

In planning and performing our audit of TAF's Statement for the period of October 1, 2020 through December 31, 2023, in accordance with U.S. generally accepted government auditing standards, we considered TAF's internal control relevant to the Statement audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TAF's internal control over financial reporting. Accordingly, we do not express an opinion on TAF's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses.

### ***Definition and Inherent Limitations of Internal Control over Financial Reporting***

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of the special purpose financial statement in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, and cooperative agreements, noncompliance with which could have a material effect on the Statement.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

### ***Intended Purpose of Report on Internal Control over Financial Reporting***

The purpose of this report is solely to describe the scope of our consideration of TAF's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of TAF's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

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

*Castro & Company, LLC*

Alexandria, VA  
July 26, 2024

**Independent Auditor's Report on Compliance Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with Government Auditing Standards**

To the Board of Trustees and Management of The Asia Foundation (TAF)  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 941104

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

We have audited the Special Purpose Financial Statement (the Statement) prepared by TAF under Cooperative Agreement No. AID-306-A-14-00008-00 to support the Strengthening Education in Afghanistan (SEA II) program, for the period of October 1, 2020 through December 31, 2023, and related notes to the Statement, and have issued our report thereon dated July 26, 2024 with an unmodified opinion. We conducted our audit in accordance with U.S. generally accepted government auditing standards.

In connection with our audit of TAF's Statement, we tested compliance with selected provisions of applicable laws, regulations, and cooperative agreements consistent with our auditor's responsibilities discussed below.

***Results of Our Tests of Compliance with Laws, Regulations, and Cooperative Agreements***

Our tests of compliance with certain provisions of laws, regulations, and the cooperative agreement disclosed one instances of noncompliance for the period of October 1, 2020 through December 31, 2023 that would be reportable under U.S. generally accepted government auditing standards which are described in the accompanying **Schedule of Findings and Questioned Costs** as Finding 2024-01. However, the objective of our test was not to provide an opinion on compliance with those provisions applicable to TAF. Accordingly, we do not express such an opinion.

***TAF's Responses to Findings***

TAF's responses to the findings identified in our audit are included verbatim in **Appendix A** within this report. TAF's responses were not subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it.

***Basis for Results of Our Tests for Compliance with Laws, Regulations, and Cooperative Agreements***

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

***Responsibilities of Management for Compliance with Laws, Regulations, and Cooperative Agreements***

TAF management is responsible for complying with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement.

***Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, and Cooperative Agreements***

Our responsibility is to test compliance with selected provisions of laws, regulations, and cooperative agreements applicable to TAF that have a direct effect on the determination of material amounts and disclosures in TAF's Statement, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, and cooperative agreements applicable to TAF. We caution that noncompliance may occur and not be detected by these tests.

***Intended Purpose of Report on Compliance with Laws, Regulations, and Cooperative Agreements***

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, and cooperative agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, and cooperative agreements is not suitable for any other purpose.

This report is intended for the information of The Asia Foundation, the United States Agency for International Development, and the Office of the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*Castro & Company, LLC*

Alexandria, VA  
July 26, 2024



**The Asia Foundation**  
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**Schedule I – Schedule of Findings and Questioned Costs**

**Finding 2024-01: Deviation from the Approved Budget Without Approval from the Agreement Officer (Internal Control – Deficiency and Noncompliance)**

**Condition:** During our review of the Special Purpose Financial Statement (SPFS), it was noted that TAF had exceeded the budgeted amounts for Travel and Other Direct Costs. Specifically, TAF accumulated \$1,773,516 for Travel Costs, surpassing the budgeted amount of \$1,710,918 by \$62,598. Additionally, TAF accumulated \$18,732,242 for Other Direct Costs, exceeding the budgeted amount of \$13,527,532 by \$5,204,710. The deviations for Travel and Other Direct Costs were not reported to, and prior approvals were not requested from USAID. Further, the overrun of \$5,204,710 for Other Direct Costs was greater than 10% of the estimated amount of the Award of \$49,828,942. Per Cooperative Agreement AID-306-A-14-00008-00, the Recipient is restricted from reallocating funds across cost categories by more than 10% of the total estimated Award amount without obtaining prior written consent from the Agreement Officer. Despite our request, TAF could not furnish the necessary approval from the Agreement Officer for the transfer exceeding 10% of the total estimated amount of the Award for Other Direct Costs.

**Criteria:**

2 Code of Federal Regulations (CFR) 200.308, Revision of budget and program plans, states in part:

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

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

Cooperative Agreement No. AID-306-A-14-00008-00, Modification 10, A.4(b), Revision of Budget, states in part:

“(1) The summary budget set forth in paragraph A.4 (a) above is based on the detailed budget that the Recipient submitted with its application for this Award. The Recipient's detailed, final negotiated budget constitutes the approved budget plan for this Award. In accordance with 2 CFR 200.308, the Recipient is required to report deviations from the approved budget, and request prior approvals for budget revisions...”

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(2) In accordance with 2 CFR 200.308, the Recipient may not transfer funds among cost categories by more than 10 percent of the total estimated amount of this Award without the prior written approval of the Agreement Officer. Approval is also required for other budget revisions, as described in paragraph (3) below, even if the budget revision is within the 10 percent restriction described herein.”

**Cause:** The original budget allocated funds for Contractual costs in the TAF program, but these costs were later categorized as Other Direct Costs. Additionally, travel expenses initially designated as Other Direct Costs were reported as Travel expenses. The overruns in the Travel and Other Direct Costs categories were directly linked to expenses associated with approved activities outlined in the cooperative agreement and aligning with the approved budget descriptions; however, the discrepancies were primarily related to TAF’s categorization process. While TAF adhered to the budget guidelines and accurately documented these expenses, the program team did not follow the cooperative agreement's requirement to seek approval for budget deviations.

**Effect:** The failure to request and obtain prior approval for budget revisions and reallocating funds across cost categories by more than 10% of the total estimated Award amount led to non-compliance with both the cooperative agreement and the CFR.

**Questioned Costs:** None. The overruns in the Travel and Other Direct Costs categories were directly linked to expenses associated with approved activities outlined in the cooperative agreement and aligned with the approved budget descriptions. The discrepancies were primarily related to a categorization process, and TAF had excess budget of \$6,022,264 for Contractual expenses. Furthermore, Castro’s sample testing indicated that TAF had provided ample documentation to support the expenses incurred for Consultant Travel and Other Direct Costs. These expenses were in line with the budget descriptions initially set forth for these specific cost categories, displaying TAF's adherence to budget guidelines and accurate documentation of the expenses. Consequently, no costs were questioned.

**Recommendations:** We recommend TAF:

1. Enhance its policies and procedures for conducting routine budget-to-actual reconciliations and require approval from the Agreement Officer for budget revisions and expenses exceeding 10% of the total estimated Award amount.
2. Provide training to its management and staff to adhere to the budget revision process and better familiarize itself with the applicable cooperative agreement requirements and CFR provisions.

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**Schedule II – Summary Schedule of Prior Audit, Review, and Assessment of Findings**

Castro & Company, LLC requested copies of prior audits, reviews, and evaluations pertinent to The Asia Foundation (TAF) activities under the cooperative agreement. Castro reviewed a total of nine prior audit reports, seven of which contained twenty-four (24) findings and recommendations. We assessed the findings and determined that seven of the findings could have a potential direct or material impact on the Special Purpose Financial Statement (the Statement) and other significant financial data significant to the audit objectives. We reviewed TAF's corrective action and concluded that the seven findings were addressed adequately. The report containing the findings is listed below:

- SIGAR Audit No. 21-45 USAID's Strengthening Education In Afghanistan II Program: Audit of Costs Incurred by The Asia Foundation

We have summarized the results of our procedures below:

**Finding 2020-01: Inadequate Micro-Purchase Procurement Procedures**

**Issue:** TAF's Country Office Procurement Policy establishes a micro-purchase threshold of \$500 where purchases can be processed through a single quotation. Additionally, TAF's Global Procurement Policy defines micro-purchases as procurement of supplies or services in an aggregate amount that does not exceed \$10,000. TAF's procurement population consisted of 26 procurements, 12 (46%) of which were micro-purchases. Through review of TAF's written procurement procedures, it was noted that the procedures do not specify the method management uses to ensure micro-purchases are equitably distributed amongst vendors and do not exceed TAF's micro-purchase threshold in the aggregate.

**Status:** Castro obtained and reviewed TAF's Making Subawards Guide, which was updated on March 1, 2021. This policy included the required details on micro-purchases. Castro determined this finding was remediated, as we reviewed the policy as part of our procurement testing and did not note any exceptions.

**Finding 2020-02: Incomplete Reporting of Subaward Activity to the Federal Government**

**Issue:** Two instances were identified where TAF did not report subaward actions obligating \$25,000 or more in Federal funds to [www.fsrs.gov](http://www.fsrs.gov). The subaward agreement was originally funded up to \$399,284.

**Status:** Castro acquired TAF's Making Subawards Guide, which was revised on March 1, 2021. Upon review, we verified that TAF effectively met the additional obligations requirement. Furthermore, Castro found that subaward activities obligating \$25,000 or more in Federal funds were properly reported on [www.fsrs.gov](http://www.fsrs.gov). As a result, Castro determined that this issue was not a repeat condition for the program under audit during the period of October 1, 2020 through December 31, 2023.

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**Finding 2020-03: Failure to Include the Sub-Award Requirements Standard Provisions**

**Issue:** During testing, TAF did not include Standard Provision Sub-Award Requirements (March 2012) within three subaward agreements with the subrecipients as required by the cooperative agreement.

**Status:** During the design of this program, it was determined there would be no 2<sup>nd</sup> tier subawards and thus this clause was not applicable. This was based on TAF's and USAID's determination there would be no further subawards. As a result, Castro determined that this issue was not a repeat condition for the program under audit during the period of October 1, 2020 through December 31, 2023.

**Finding 2020-04: Inadequate Process for the Review and Approval of the Notes to the Statement**

**Issue:** During a review of the Notes to the Statement, the auditors noted the following:

- Note 2. Basis of Accounting originally indicated that the basis of accounting used to prepare the Statement was cash. However, upon review, the basis of accounting used was accrual.
- Note 3. Foreign Currency Conversion Method related to foreign currency conversion indicated that conversion from a foreign currency was not needed in preparing the Statement. Based on testing, it was noted that transactions were denominated in a foreign currency and required conversion from Afghanis to U.S. dollars.
- Note 5. Costs Incurred by Budget Category related to the budget indicated that the budgeted categories and amounts presented were in alignment with Modification 15 to the award. However, based on review, that the categories included did not align with those indicated in Modification 15 to the award.
- Note 8 Subrecipients to the Statement included an original subaward population that included 148 subrecipients for a total dollar value of \$456,961, which is material to the Statement. Based upon review and discussion with TAF, 144 of the subrecipients were deemed by TAF to be beneficiaries. TAF subsequently removed the beneficiaries from their note disclosure.

Based on the requested changes to the notes, the auditors determined that TAF's review and approval process for the Statement and corresponding Notes was inadequate. However, TAF concurred with the recommended revisions such that the Notes to the Statement are considered to be fairly presented.

**Status:** Castro obtained and reviewed the Notes to the Statement and confirmed that TAF appropriately prepared and reviewed the Notes to the Statement. As a result, Castro determined that this issue was not a repeat condition for the program under audit during the period of October 1, 2020 through December 31, 2023.

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**Finding 2020-05: Inadequate Monitoring Process over Subrecipient Audit Requirements**

**Issue:** TAF's Subawards Policy does not establish adequate procedures to identify when a subrecipient is required to be audited and, therefore, to submit an audit report to TAF.

TAF maintains a Subrecipient Summary Report (PJ 130), which is used to track life of program financial information of all subrecipients, including amount awarded, spent to date, balance of obligations, and amounts to be paid to subrecipients in the following fiscal year. Management periodically reviews subrecipients' financial data included in the PJ 130 to track expenditures incurred by the subrecipient, however, the report does not include each recipient's total Federal expenditures (inclusive of awards with other entities) incurred within each subrecipient's fiscal year to determine when an audit is required.

**Status:** Castro obtained and reviewed TAF's U.S. Government Audit Requirements Compliance Certification. This included a new requirement for local subrecipients to provide annual audit certification, which was initially required from the major partners, usually U.S.-based Non-Governmental Organizations. Castro determined this finding was remediated, as we reviewed the certifications as part of our procurement testing and did not note any exceptions.

**Finding 2020-06: Inaccurate Reporting of Unliquidated Obligations to the Federal Government**

**Issue:** The auditor reviewed each (4 total) of TAF's quarterly Federal Financial Reports (FFR) submitted to the U.S. Government during the period under audit, and noted that management reported a \$0 balance of unliquidated obligations. TAF's subrecipients had unexpended balances as of the end of each FFR period. TAF identified within the reports that the FFRs are on an accrual basis. Therefore, there were unliquidated obligations as of the date of those reports.

**Status:** During our testing of the FFRs for the period of October 1, 2020 through December 31, 2023, Castro reported balances for unliquidated obligations when subrecipients had unexpended balances as of the end of the FFR period. As a result, Castro determined that this issue was not a repeat condition for the program under audit during the period of October 1, 2020 through December 31, 2023.

**Finding 2020-07: Subaward Agreements Missing Required Data Elements**

**Issue:** For all four subawards tested, TAF did not include the following subaward data elements as required by 2 Code of Federal Regulations (CFR) 200.331: b) CFDA program name; c) Federal award date; and d) identification of the agreement as a subaward.

**Status:** Castro obtained and reviewed TAF's Making Subawards Guide which was updated March 1, 2021. This policy included an excerpt along with a direct link to the appropriate section of 2 CFR 200.332. Further, TAF provided Castro with the training provided on May 19, 2020, which highlighted changes to its Subaward guide, changes in policies, and regulations which impacted

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its subawards. Castro determined this finding was remediated, as we reviewed the policy as part of our procurement testing and did not note any exceptions.

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**Appendix A – The Asia Foundation’s Response to the Audit Finding**



**The Asia Foundation**

**Schedule I – Schedule of Findings and Questioned Costs**

**Finding 2024-01: Deviation from the Approved Budget Without Approval from the Agreement Officer (Internal Control – Deficiency and Noncompliance)**

**Condition:** During our review of the Special Purpose Financial Statement (SPFS), it was noted that TAF had exceeded the budgeted amounts for Travel and Other Direct Costs. Specifically, TAF accumulated \$1,773,516 for Travel Costs, surpassing the budgeted amount of \$1,710,918 by \$62,598. Additionally, TAF accumulated \$18,732,242 for Other Direct Costs, exceeding the budgeted amount of \$13,527,532 by \$5,204,710. The deviations for Travel and Other Direct Costs were not reported to, and prior approvals were not requested from USAID. Further, the overrun of \$5,204,710 for Other Direct Costs was greater than 10% of the estimated amount of the Award of \$49,828,942. Per Cooperative Agreement AID-306-A-14-00008-00, the Recipient is restricted from reallocating funds across cost categories by more than 10% of the total estimated Award amount without obtaining prior written consent from the Agreement Officer. Despite our request, TAF could not furnish the necessary approval from the Agreement Officer for the transfer exceeding 10% of the total estimated amount of the Award for Other Direct Costs.

**Criteria:**

2 Code of Federal Regulations (CFR) 200.308, Revision of budget and program plans, states in part:

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

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

Cooperative Agreement No. AID-306-A-14-00008-00, Modification 10, A.4(b), Revision of Budget, states in part:

“(1) The summary budget set forth in paragraph A.4 (a) above is based on the detailed budget that the Recipient submitted with its application for this Award. The Recipient’s detailed, final negotiated budget constitutes the approved budget plan for this Award. In accordance with 2 CFR 200.308, the Recipient is required to report deviations from the approved budget, and request prior approvals for budget revisions...

(2) In accordance with 2 CFR 200.308, the Recipient may not transfer funds among cost categories by more than 10 percent of the total estimated amount of this Award without the prior written

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**The Asia Foundation**  
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approval of the Agreement Officer. Approval is also required for other budget revisions, as described in paragraph (3) below, even if the budget revision is within the 10 percent restriction described herein.”

**Cause:** The original budget allocated funds for Contractual costs in the TAF program, but these costs were later categorized as Other Direct Costs. Additionally, travel expenses initially designated as Other Direct Costs were reported as Travel expenses. The overruns in the Travel and Other Direct Costs categories were directly linked to expenses associated with approved activities outlined in the cooperative agreement and aligning with the approved budget descriptions; however, the discrepancies were primarily related to TAF’s categorization process. While TAF adhered to the budget guidelines and accurately documented these expenses, the program team did not follow the cooperative agreement’s requirement to seek approval for budget deviations.

**Effect:** The failure to request and obtain prior approval for budget revisions and reallocating funds across cost categories by more than 10% of the total estimated Award amount led to non-compliance with both the cooperative agreement and the CFR.

**Questioned Costs:** None. The overruns in the Travel and Other Direct Costs categories were directly linked to expenses associated with approved activities outlined in the cooperative agreement and aligned with the approved budget descriptions. The discrepancies were primarily related to a categorization process, and TAF had excess budget of \$6,022,264 for Contractual expenses. Furthermore, Castro’s sample testing indicated that TAF had provided ample documentation to support the expenses incurred for Consultant Travel and Other Direct Costs. These expenses were in line with the budget descriptions initially set forth for these specific cost categories, displaying TAF’s adherence to budget guidelines and accurate documentation of the expenses. Consequently, no costs were questioned.

**Recommendations:** We recommend TAF:

1. Enhance its policies and procedures for conducting routine budget-to-actual reconciliations and require approval from the Agreement Officer for budget revisions and expenses exceeding 10% of the total estimated Award amount.
2. Provide training to its management and staff to adhere to the budget revision process and better familiarize itself with the applicable cooperative agreement requirements and CFR provisions.

**TAF Response:** Partially agreed. While we agree that the Cooperative Agreement line item “Other Direct Costs” did exceed by more than 10% of the total award budget; however, we take this opportunity to respectfully reiterate that the activity costs were duly approved by USAID and under a different line item. To elaborate, all consultancy costs and several contractual costs were packaged under “Contractual” line item in TAF’s cost proposal. These costs, when incurred, were grouped under “Other Direct Costs”, based on TAF’s chart of accounts. The “Other Direct Cost” is a grouping of costs in the accounting system to ensure the Negotiated Indirect Cost Rate is applied appropriately.

Going forward, The Asia Foundation will review its cost proposal packaging to ensure that similar variances, owing to account code and cost grouping inconsistencies, are mitigated.



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**Appendix B – Auditor’s Rebuttal to The Asia Foundation’s Response to the Audit Finding**

Castro & Company, LLC (Castro) has reviewed the management response of The Asia Foundation (TAF) to the audit finding. Castro incorporates a rebuttal in those instances where management disagrees with the facts presented within the condition, does not concur with Castro’s recommendation, or provides additional documentation for review. In those instances where management either agrees with the finding or does not disagree with the facts in the finding, as presented, no rebuttal is provided.

**Finding 2024-01: Deviation from the Approved Budget Without Approval from the Agreement Officer (Internal Control – Deficiency and Noncompliance)**

TAF partially agreed with the finding, stating that the activity costs were duly approved by the United States Agency for International Development (USAID) under a different line item. However, TAF was unable to provide Castro with support to show that the deviations for Travel and Other Direct Costs were reported to, and prior approvals were requested from USAID. Per the cooperative agreement and the Code of Federal Regulations, the Recipient is required to report deviations from the approved budget, and request prior approval for budget revisions. Further, the Recipient may not transfer funds among cost categories by more than 10 percent of the total estimated amount of the award without prior written approval from the Agreement Officer. As a result, our finding and recommendations remain unchanged.

## SIGAR's Mission

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

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

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## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

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- Phone International: +1-866-329-8893
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## SIGAR's Mission

Public Affairs Officer

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