

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 25-10 Financial Audit

USAID's

in Afghanistan: Audit of Costs Incurred by

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



DECEMBER
2024

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On June 10, 2022, the U.S. Agency for International Development's Bureau for Humanitarian Assistance (USAID/BHA) awarded a \$4,500,000 grant to [REDACTED] to support the [REDACTED]

[REDACTED] of Afghanistan program. On January 20, 2023, USAID/BHA awarded an additional \$20,500,000 grant to [REDACTED] in Afghanistan program. The grants' objectives were to, among other things, [REDACTED]

USAID/BHA modified the grants four times, extending the first grant's period of performance from April 30, 2023, through October 31, 2023. The modifications did not change the second grant's period of performance, which ended on November 30, 2024, nor the grants' total funding amount.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed a total of \$7,972,613 in costs charged to the grants from May 1, 2022, through November 30, 2023. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in [REDACTED] internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether [REDACTED] has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of [REDACTED] Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

December 2024

USAID's [REDACTED] in Afghanistan: Audit of Costs Incurred by [REDACTED]

SIGAR 25-10-FA

WHAT SIGAR FOUND

Conrad identified one material weakness and seven significant deficiencies in [REDACTED] internal controls, and eight instances of noncompliance with grant terms. For example, Conrad noted multiple issues with [REDACTED] allocation of shared costs. In 368 instances, rather than utilizing an equitable allocation methodology, [REDACTED] improperly pooled budget amounts, charging the programs based on percentages calculated from budgeted figures, which is not compliant with federal guidelines.

Because of the deficiencies in internal controls and instances of noncompliance, Conrad identified a total of \$387,254 in questioned costs, consisting of \$39,582 in ineligible costs—costs prohibited by the grants and applicable laws and regulations, and \$347,672 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$768	\$311,116	\$311,884
Indirect Costs	\$38,814	\$36,556	\$75,370
Total Costs	\$39,582	\$347,672	\$387,254

Conrad identified findings in one prior audit report that could have a material effect on the SPFS or other financial data significant to the audit objectives. The report had three findings and accompanying recommendations. Conrad conducted follow-up procedures and concluded that [REDACTED] had not taken adequate corrective action on one of the three findings, because it was repeated in this audit.

Conrad issued a modified opinion on [REDACTED] SPFS, noting that the total questioned costs amount is material to the SPFS.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$387,254 in questioned costs identified in the report.
2. Advise [REDACTED] to address the report's eight internal control findings.
3. Advise [REDACTED] to address the report's eight noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 23, 2024

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

Ms. Sonali Korde
Assistant to the Administrator of USAID's
Bureau for Humanitarian Assistance

We contracted with Conrad LLP (Conrad) to audit the costs incurred by [REDACTED] under two grants from the U.S. Agency for International Development (USAID) in [REDACTED] in Afghanistan.¹ The grants' objectives were to, among other things, [REDACTED]. Conrad reviewed a total of \$7,972,613 in costs charged to the grants from May 1, 2022, through November 30, 2023. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. **Determine the allowability of and recover, as appropriate, \$387,254 in questioned costs identified in the report.**
2. **Advise [REDACTED] to address the report's eight internal control findings.**
3. **Advise [REDACTED] to address the report's eight noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on [REDACTED] Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated November 27, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-293)

¹ The grant numbers are [REDACTED] and [REDACTED]

[REDACTED]

Financial Audit of the Special Purpose Financial Statement for Grant Award No.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development's
Bureau for Humanitarian Assistance

[REDACTED]

throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

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November 27, 2024

Board of Directors
[REDACTED]

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

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of [REDACTED] Special Purpose Financial Statements under Grant Agreement Nos. [REDACTED] and [REDACTED] awarded by the United States Agency for International Development's Bureau for Humanitarian Assistance for the period of May 1, 2022 through November 30, 2023, supporting various emergency response to vulnerable populations programs throughout Afghanistan.

On September 23, 2024, we provided SIGAR with a draft report reflecting our audit procedures and results. [REDACTED] received a copy of the report on November 5, 2024 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and [REDACTED]. Additionally, [REDACTED] responses and Conrad's corresponding rebuttals are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you, and to conduct the audit of these Grant Agreements.

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA
Partner

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Background

Between 2022 and 2023, the United States Agency for International Development's Bureau for Humanitarian Assistance (USAID/BHA) awarded two (2) Grants to [REDACTED]

The first Grant, [REDACTED] ([REDACTED]) was awarded on June 10, 2022, to support the [REDACTED] of Afghanistan program. The primary goal of the program was [REDACTED]. The objectives of this grant were as follows:

1. Affected population have access to adequate food consumption that ensures their survival, upholds their dignity, prevents the erosion of their assets and builds resilience, within the timeframe of this action.
2. Reduced incidence and risk of communicable disease transmission and reduced rates of mortality and morbidity caused by communicable disease transmission.

The second Grant, [REDACTED] ([REDACTED]) was awarded on January 20, 2023, [REDACTED] in Afghanistan program. The primary goal of this program is to address emergency humanitarian needs of vulnerable populations through food assistance, WASH support, health and nutrition programming, shelter and agriculture assistance, and cash support. The objectives of this grant are as follows:

1. Reduced excess morbidity and mortality through increased access to quality integrated life-saving health, nutrition, and mental health and psychosocial support services.
2. Reduced incidence of food insecurity for the most vulnerable households and reduced reliance on negative coping strategies.
3. Reduced incidence and risk of communicable disease transmission and reduced rates of mortality and morbidity caused by communicable disease transmission.
4. Shock affected households can cover their basic lifesaving needs.
5. Reduced incidence of morbidity and mortality due to multisectoral winter needs.
6. Reduced incidence and risk of food insecurity in agro-pastoralist communities.
7. Affected population is able to receive temporary employment and meet basic needs while rebuilding community assets essential for (re)building livelihoods.

The initial award amounts were \$4,500,000 for [REDACTED] and \$20,500,000 for [REDACTED] for the period of performance of May 1, 2022 through April 30, 2023 and January 1, 2023 through November 30, 2024, respectively. Three (3) modifications were made to [REDACTED] which did not change the total award amount but did change the period of performance end date to October 31, 2023. One (1) modification was made to [REDACTED] which did not affect the total award amount nor the period of performance end date. See the Summary of Grants below.

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Summary of Grants

Grant Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
[REDACTED]	\$4,500,000	05/01/22	04/30/23	3	No Change	10/31/23
[REDACTED]	\$20,500,000	01/01/23	11/30/24	1	No Change	No Change

* - Close-out Grant

[REDACTED]

Work Performed

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the two (2) Grants, as mentioned above, of [REDACTED] Special Purpose Financial Statements (SPFS) for the revenue received of \$7,075,294, costs incurred of \$7,972,613, and a fund balance of negative \$897,319 for the period of performance from May 1, 2022 through November 30, 2023.

Objectives, Scope, and Methodology

Audit Objectives

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

- *Special Purpose Financial Statement* – Express an opinion on whether [REDACTED] SPFS for the Grants presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the Grants and generally accepted accounting principles or other comprehensive basis of accounting.

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

- *Internal Controls* – Evaluate and obtain sufficient understanding of [REDACTED] internal controls related to the Grants, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether [REDACTED] complied, in all material respects, with the Grants requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Grants and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether [REDACTED] has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period of May 1, 2022 through November 30, 2023, totaling \$7,972,613 under the Grant Agreements. Our testing of the indirect cost charged to the Grants was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (NICRA) and subsequent applicable amendments.

Audit Methodology

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

Entrance Conference

An entrance conference was held on March 13, 2024, with representatives of [REDACTED] Conrad, SIGAR, and USAID/BHA participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of 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:

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

- Obtained an understanding of [REDACTED]. The scope of our audit includes [REDACTED] management and employees, internal and external factors that affected operations, accounting policies and procedures. We gained an understanding of [REDACTED] through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - The Standards for Internal Control in the Federal Government (GAO-14-704G: Published: September 10, 2014);
 - Foreign Assistance Act of 1961, as amended;
 - 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;
 - 2 CFR 700, USAID Uniformed Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards;
 - USAID Automated Directives System (ADS) Chapter 303;
 - Terms of the Grants between USAID/BHA and [REDACTED] and [REDACTED];
 - [REDACTED] Policies and Procedures.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs were properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

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

Internal Controls Related to the Grant Agreements

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

We reviewed [REDACTED] internal controls related to the Grants to gain an understanding of the implemented system of internal control to obtain reasonable assurance of [REDACTED] financial reporting function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

Compliance with the Grants Requirements and Applicable Laws and Regulations

We performed tests to determine whether [REDACTED] complied, in all material respects, with the Grants requirements, 2 CFR 200, 2 CFR 700, ADS 303, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Grants and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from [REDACTED] and SIGAR and reviewed these reports to determine if there were any findings and recommendations that could have a potential impact on this audit. In addition, we also conducted a search online of various governmental websites including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on [REDACTED] SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the *Status of Prior Audit Findings* section on page 40.

Exit Conference

An exit conference was held on September 4, 2024, via conference call. Participants included representatives from Conrad, [REDACTED] SIGAR, and USAID/BHA. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

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

Auditor's Opinion on the SPFS

Conrad issued a modified opinion on the fairness of the presentation of the SPFS.

Conrad identified eight (8) audit findings with a combined questioned costs of \$419,252. Of this amount, \$31,998 was also questioned among different findings. As such, the net questioned costs of \$387,254 was presented in the SPFS to avoid duplicate questioned costs. The net questioned costs comprised

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

\$39,582 in ineligible costs and \$347,672 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Grant's provisions or applicable laws and regulations, or not related to the Grants. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

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

Internal Controls

Our audit identified eight (8) internal control findings. Seven (7) internal control findings are considered to be significant deficiencies and one (1) internal control finding is considered to be a material weakness. See *Independent Auditor's Report on Internal Control* on page 21.

Compliance

The results of our testing identified eight (8) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 23.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. [REDACTED] self-disclosed several instances of alleged fraud that could have a potential impact on the Program and the SPFS. Based on further discussions with [REDACTED] and review of the alleged incidences of fraud, there was no significant financial impact to the Program or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

(Continued)

[REDACTED]
 Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
 Two Grants Awarded by the United States Agency for International Development
[REDACTED]
 throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2024-01	Non-compliance and Internal Control – Material Weakness	Missing or insufficient supporting documentation to support an equitable allocation methodology for costs charged to the programs.	\$ -	\$ 318,196	\$ 318,196
2024-02	Non-compliance and Internal Control – Significant Deficiency	Indirect cost rate was not updated within grant agreement requirements.	38,724	-	356,920
2024-03	Non-compliance and Internal Control – Significant Deficiency	Missing supporting documentation for cost charged to the programs.	-	6,772	363,692
2024-04	Non-compliance and Internal Control – Significant Deficiency	Procurement procedures were not performed on consultants in accordance with [REDACTED] procurement policy.	-	- ¹	363,692

¹ See explanation of questioned costs under Finding 2024-04 in the Schedule of Findings and Questioned Costs.
(Continued)

[REDACTED]
 Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
 Two Grants Awarded by the United States Agency for International Development
[REDACTED]
 throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

2024-05	Non-compliance and Internal Control – Significant Deficiency	Procurement procedures were not performed on a direct purchase.	-	1,324	365,016
2024-06	Non-compliance and Internal Control – Significant Deficiency	Lack of reasonableness check for direct purchases.	-	1,501	366,517
2024-07	Non-compliance and Internal Control – Significant Deficiency	Costs charged were related to other programs.	-	19,879	386,396
2024-08	Non-compliance and Internal Control – Significant Deficiency	Unallowable costs were charged to the programs.	858	-	387,254
Total Questioned Costs			\$ 39,582	\$ 347,672	\$ 387,254

Review of Prior Findings and Recommendations

We requested copies of prior audit reports and engagements from [REDACTED] SIGAR, and USAID pertinent to [REDACTED] activities under the Grants. We identified one (1) prior audit report that contained three (3) findings and associated recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

audit. Based on our review, [REDACTED] had taken adequate corrective actions on two out of the three findings and recommendations and did not take adequate corrective action on one finding and recommendation. See *Status of Prior Audit Findings* on page 40 for a detailed description of the prior findings and recommendations.

Summary of [REDACTED] Responses to Findings

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

- (1) **Finding 2024-01:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and provided explanations for their allocation methodologies for direct costs and shared costs. [REDACTED] indicated that their new Financial Planning & Analysis tool will improve their process for calculating and reallocating costs across multiple awards and will be rolled out in Q4 2025.
- (2) **Finding 2024-02:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and explained that they retroactively correct NICRA provisional rates the month after the official rate is received. [REDACTED] maintained that no payback could be considered for an open award.
- (3) **Finding 2024-03:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and provided explanations for the questioned costs associated with the payroll corrections, additional work and materials for a construction project, and accrued audit costs.
- (4) **Finding 2024-04:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and explained their process for hiring consultants, claiming they complied with internal guidelines and recruitment best practices.
- (5) **Finding 2024-05:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and claimed the finding was a result of a misunderstanding of its procurement procedures.
- (6) **Finding 2024-06:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and claimed compliance with internal guidelines, stating that for purchases under \$1,000, [REDACTED] logistics practice is to compare market prices before approving purchases.
- (7) **Finding 2024-07:** [REDACTED] did not explicitly state whether they agreed or disagreed with the finding and provided several explanations for each of the categories falling under this finding.
- (8) **Finding 2024-08:** [REDACTED] did not explicitly state whether they agreed or disagreed with the portion of this finding related to Fringe Benefits costs and explained that R&R allowances are allocated based on available budget. [REDACTED] agreed with the portion of the finding related to an incorrect tax payment and the cost of an employee's farewell party.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
[REDACTED]

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of [REDACTED] (SPFS) and the related notes to the Special Purpose Financial Statement (Statement), with respect to the Grant Agreement Nos. [REDACTED] and [REDACTED] (Grants) awarded by the United States Agency for International Development's Bureau for Humanitarian Assistance (USAID/BHA) to [REDACTED] throughout Afghanistan for the period of May 1, 2022 through November 30, 2023.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of May 1, 2022 through November 30, 2023, in accordance with the terms of the Grants and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of [REDACTED] and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We identified \$387,254 in aggregated questioned costs resulting from the material weakness and significant deficiencies in internal controls and non-compliance with the terms and conditions of the Grants. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Basis of Presentation and Accounting

We draw attention to Note 1 and 2 to the Special Purpose Financial Statement, which describes the basis of presentation and the basis of accounting. As described in Note 1 to the Special

Purpose Financial Statement, the statement is prepared by [REDACTED] on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Special Purpose Financial Statement

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

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

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

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 27, 2024 on our consideration of [REDACTED] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Grants, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [REDACTED] internal control over financial reporting and compliance.

Restriction on Use

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

Conrad LLP

Lake Forest, California
November 27, 2024

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and

Two Grants Awarded by the United States Agency for International Development

[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Special Purpose Financial Statement

	[REDACTED]		[REDACTED]		<u>Combined</u>		<u>Questioned Costs</u>			<u>Notes</u>
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Total revenues	<u>\$20,500,000</u>	<u>\$2,852,083</u>	<u>\$4,500,000</u>	<u>\$4,223,211</u>	<u>\$25,000,000</u>	<u>\$7,075,294</u>	\$ -	\$ -	\$ -	(4)
Costs incurred:										
Personnel	3,647,552	837,354	809,685	549,398	4,457,237	1,386,752	-	111,801	111,801	(A)
Fringe Benefits	1,024,561	382,589	251,078	188,619	1,275,639	571,208	-	127,309	127,309	(B)
Travel	165,979	83,971	46,879	62,590	212,858	146,561	-	6,596	6,596	(C)
Supplies	2,574,740	132,342	2,531,053	2,868,482	5,105,793	3,000,824	422	6,670	7,092	(D)
Contractual	10,098,717	1,317,223	89,351	51,699	10,188,068	1,368,922	-	4,116	4,116	(E)
Other Direct Costs	675,108	354,004	264,147	271,405	939,255	625,409	346	54,624	54,970	(F)
Indirect Costs	<u>2,313,343</u>	<u>365,130</u>	<u>507,807</u>	<u>507,807</u>	<u>2,821,150</u>	<u>872,937</u>	<u>38,814</u>	<u>36,556</u>	<u>75,370</u>	(G)
Total costs incurred	<u>\$20,500,000</u>	<u>\$3,472,613</u>	<u>\$4,500,000</u>	<u>\$ 4,500,000</u>	<u>\$25,000,000</u>	<u>\$7,972,613</u>	<u>\$ 39,582</u>	<u>\$ 347,672</u>	<u>\$ 387,254</u>	
Outstanding fund balance	\$ -	\$ (620,530)	\$ -	\$ (276,789)	\$ -	\$ (897,319)				

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

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Notes to Special Purpose Financial Statement¹

(1) Basis of Presentation

[REDACTED]
The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under the [REDACTED]
[REDACTED] Grant Agreement No [REDACTED] for the period May 1, 2022 to October 31, 2023. Because the Statement presents only a selected portion of the operations of [REDACTED] it is not intended to and does not present the financial position, changes in the net assets, or cash flows of [REDACTED]. The information in this Statement is presented in accordance with the requirements specified by SIGAR and is specific to the aforementioned Federal Grant Agreement. Therefore, some amounts presented in this Statement may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

[REDACTED]
The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under the [REDACTED]
[REDACTED] Grant Agreement No [REDACTED] for the period January 1, 2023 to November 30, 2024. Because the Statement presents only a selected portion of the operations of [REDACTED] it is not intended to and does not present the financial position, changes in the net assets, or cash flows of [REDACTED]. The information in this Statement is presented in accordance with the requirements specified by SIGAR and is specific to the aforementioned Federal Grant Agreement. Therefore, some amounts presented in this Statement may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

(2) Basis of Accounting

[REDACTED]
Expenditures reported on the Statement are reported on cash basis of accounting and presents amounts as presented under the terms of the Agreement. Such expenditures are recognized following the cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Statement revenue corresponds to flow of funds received from USAID.

[REDACTED]
Expenditures reported on the Statement are reported on cash basis of accounting and presents amounts as presented under the terms of the Agreement. Such expenditures are recognized following the cost principles contained in 2 CFR 200 Subpart E, wherein certain types of

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

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Notes to Special Purpose Financial Statement¹
(Continued)

expenditures are not allowable or are limited as to reimbursement. The Statement revenue corresponds to flow of funds received from USAID.

(3) Foreign Currency Translation Method

[REDACTED]
For purposes of preparing the Statement, conversions from local currency to United States dollars were not required as all costs presented were in United States dollars and were converted in the [REDACTED] [REDACTED] accounting system and the [REDACTED] accounting system when the transactions were recorded.

[REDACTED]
For purposes of preparing the Statement, conversions from local currency to United States dollars were not required as all costs presented were in United States dollars and were converted in the [REDACTED] [REDACTED] accounting system and the [REDACTED] accounting system when the transactions were recorded.

(4) Revenues

[REDACTED]
Revenue is recognized on the cash basis which recognizes expenditures at the time cash is paid. Revenues on the Statement represent the total of funds drawn against the letter of credit for this Program during the audit period. [REDACTED] is entitled to receive these funds from USAID for allowable, eligible costs incurred under the grant during the period of performance. The Total Revenue drawdown for the audit period is \$4,223,211 resulting in an outstanding fund balance of (\$276,789).

[REDACTED]
Revenue is recognized on the cash basis which recognizes expenditures at the time cash is paid. Revenues on the Statement represent the total of funds drawn against the letter of credit for this Program during the audit period. [REDACTED] is entitled to receive these funds from USAID for allowable, eligible costs incurred under the grant during the period of performance. The Total Revenue drawdown for the audit period is \$2,582,083 resulting in an outstanding fund balance of (\$620,530).

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Notes to Special Purpose Financial Statement¹
(Continued)

(5) Costs Incurred by Budget Category

[REDACTED]
The budget categories presented and associated amounts within the approved eighteen-month budget plan are detailed in the agreement. It encompasses the entire period of performance.

[REDACTED]
The budget categories presented and associated amounts within the approved twenty-three-month budget plan are detailed in the agreement. It encompasses the entire period of performance.

(6) Cost Share

[REDACTED]
There is no cost-share required for this program.

[REDACTED]
There is no cost-share required for this program.

(7) Activity Status

The [REDACTED]
[REDACTED] Grant Agreement No [REDACTED] Program activities came to an end at the end of the Program period October 31, 2023.

The [REDACTED]
[REDACTED] Grant Agreement No [REDACTED] remains active beyond the audit period. The validity period of the above-quoted agreement is ending on November 30, 2024.

(8) Indirect Cost

[REDACTED]
[REDACTED] has an approved Negotiated Indirect Cost Rate Agreement (“NICRA”) allocation base “Total costs excluding Management and General Expenses” dated May 25, 2022, which establishes the following indirect cost rate.

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Notes to Special Purpose Financial Statement¹
(Continued)

Type	Effective Period		Indirect Cost Rate
	From	Through	
Provisional	01-01-2022	Until amended	12.72

[REDACTED] has an approved Negotiated Indirect Cost Rate Agreement (“NICRA”) allocation base “Total costs excluding Management and General Expenses” dated July 26, 2023, which establishes the following indirect cost rate.

Type	Effective Period		Indirect Cost Rate
	From	Through	
Provisional	01-01-2022	Until amended	11.75

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

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Personnel

[REDACTED] reported a total of \$1,386,752 for Personnel for the period of May 1, 2022 through November 30, 2023.

During our audit of these costs, we noted the following:

- [REDACTED] calculated the allocation based on budget and not actual costs incurred and did not provide sufficient timesheets or supporting documentation for actual costs resulting in unsupported Personnel costs of \$111,801. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where [REDACTED] did not provide sufficient support. As such, we were unable to tie or recalculate the amount charged to the general ledger resulting in unsupported Personnel costs of \$1,798. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report. **Please note that of this amount \$1,798 was also questioned in Finding 2024-01.** As such, the net amount of \$0 is presented as the questioned costs in the SPFS.
- Costs charged to the Program were missing sufficient support showing that the costs are related to the Program. The supporting documentation provided by [REDACTED] referenced other project codes. This issue resulted in unsupported Personnel costs of \$15,244. See **Finding No. 2024-07** in the *Schedule of Findings and Questioned Costs* section of this report. **Please note that of this amount \$15,244 was also questioned in Finding 2024-01.** As such, the net amount of \$0 is presented as the questioned costs in the SPFS.

The issues identified above resulted in total unsupported questioned Personnel costs of \$111,801.

(B) Fringe Benefits

[REDACTED] reported a total of \$571,208 for Fringe Benefits for the period of May 1, 2022 through November 30, 2023.

During our audit of these costs, we noted the following:

- [REDACTED] calculated the allocation based on budget and not actual costs incurred and did not provide sufficient timesheets or supporting documentation for actual costs resulting in

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

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

**Notes to Questioned Costs Presented on the Special Purpose Financial Statement²
(Continued)**

unsupported Personnel costs of \$127,309. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

- [REDACTED] charged unallowable costs to the Program which included rest and recuperation costs and payroll taxes that were charged 100% to the Program when only 50% of the payroll costs for these employees were allocated to the Program. This resulted in ineligible Fringe Benefits costs of \$1,044. See **Finding No. 2024-08** in the *Schedule of Findings and Questioned Costs* section of this report. **Please note that of this amount \$1,044 was also questioned in Finding 2024-01.** As such, the net amount of \$0 is presented as the questioned costs in the SPFS.

The issues identified above resulted in total questioned Fringe Benefits costs of \$127,309, consisting of \$1,044 in ineligible costs and \$127,309 in unsupported costs which includes the \$1,044 in ineligible costs.

(C) Travel

[REDACTED] reported a total of \$146,561 for Travel for the period of May 1, 2022 through November 30, 2023.

During our audit of these costs, we noted that costs charged to the Program were missing sufficient support showing that the costs are related to the Program. The supporting documentation provided by [REDACTED] referenced other project names and/or project codes. This issue resulted in unsupported Travel costs of \$6,596. See **Finding No. 2024-07** in the *Schedule of Findings and Questioned Costs* section of this report.

(D) Supplies

[REDACTED] reported a total of \$3,000,824 for Supplies for the period of May 1, 2022 through November 30, 2023.

During our audit of these costs, we noted the following:

- [REDACTED] allocated 100% of the invoice costs to the Program when the internal approval provided states the costs were to be split among several programs. This issue resulted in unsupported Supplies costs of \$6,670. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

**Notes to Questioned Costs Presented on the Special Purpose Financial Statement²
(Continued)**

- [REDACTED] charged unallowable costs to the Program which included the loss of cash during a security incident in [REDACTED] and a tax payment that was not correctly reversed out of the general ledger. This resulted in ineligible Supplies costs of \$422. See **Finding No. 2024-08** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned Supplies costs of \$7,092, consisting of \$422 in ineligible costs and \$6,670 in unsupported costs.

(E) Contractual

[REDACTED] reported a total of \$1,368,922 for Contractual for the period of May 1, 2022 through November 30, 2023.

During our audit of these costs, we noted the following:

- [REDACTED] calculated the allocation based on budget and not actual costs incurred and did not provide sufficient supporting documentation for actual costs resulting in unsupported Contractual costs of \$453. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where additional construction work not listed in the original construction contract was performed and did not have prior approval from [REDACTED] were charged to the Program. This resulted in unsupported Contractual costs of \$3,663. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total unsupported questioned Contractual costs of \$4,116.

(F) Other Direct Costs

[REDACTED] reported a total of \$625,409 for Other Direct Costs for the period of May 1, 2022 through November 30, 2023.

During our audit of these costs, we noted the following:

- [REDACTED] calculated the allocation based on budget and not actual costs incurred and did not provide sufficient supporting documentation for actual costs. In some instances, [REDACTED] did

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

**Notes to Questioned Costs Presented on the Special Purpose Financial Statement²
(Continued)**

not provide sufficient allocation support. As such, we were unable to tie or recalculate the amount charged to the general ledger resulting in unsupported Other Direct Costs of \$38,506. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

- Costs where [REDACTED] did not provide supporting documentation to substantiate the percentage used to accrue audit costs to the Program and support the amounts charged to the general ledger. This resulted in unsupported Other Direct Costs of \$4,042. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report. **Please note that of this amount \$1,645 was also questioned in Finding 2024-01.** As such, the net amount of \$2,397 is presented as the questioned costs in the SPFS.
- Costs where [REDACTED] did not perform procurement procedures on consultants as required by their procurement policy resulting in unsupported Other Direct Costs of \$8,499 See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report. **Please note that of this amount \$8,499 was also questioned in Finding 2024-01.** As such, the net amount of \$0 is presented as the questioned costs in the SPFS.
- Costs where [REDACTED] did not perform procurement procedures on a direct purchase due to the urgency of the request resulting in unsupported Other Direct Costs of \$1,185. See **Finding No. 2024-05** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where we identified [REDACTED] lack of reasonableness checks on direct purchases resulting in unsupported Other Direct Costs of \$1,343. See **Finding No. 2024-06** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs charged to the Program were missing sufficient support showing that the costs are related to the Program. The supporting documentation provided by [REDACTED] referenced other project names and/or project codes. This issue resulted in unsupported Other Direct Costs of \$11,595. See **Finding No. 2024-07** in the *Schedule of Findings and Questioned Costs* section of this report. **Please note that of this amount \$402 was also questioned in Finding 2024-04.** As such, the net amount of \$11,193 is presented as the questioned costs in the SPFS.

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

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

**Notes to Questioned Costs Presented on the Special Purpose Financial Statement²
(Continued)**

- [REDACTED] charged unallowable costs to the Program which included costs for employee farewell parties. This resulted in ineligible Other Direct Costs of \$346. See **Finding No. 2024-08** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned Other Direct Costs of \$54,970, consisting of \$346 in ineligible costs and \$54,624 in unsupported costs.

(G) Indirect Costs

[REDACTED] reported a total of \$872,937 for Indirect Costs for the period of May 1, 2022 through November 30, 2023. During our audit of these costs, we noted that [REDACTED] did not apply the revised provisional NICRA rate provided by USAID when calculating the indirect cost associated with Grant No. [REDACTED]. This resulted in ineligible costs of \$38,724. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.

In addition, the indirect costs associated with questioned costs identified in Notes A through F above resulted in total associated questioned indirect costs of \$36,646 which includes associated unsupported indirect costs of \$36,556 and associated ineligible indirect costs of \$90. This resulted in total questioned indirect costs of \$75,370.

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

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
[REDACTED]

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by [REDACTED] under Grant Agreement Nos. [REDACTED] and [REDACTED] (Grants) in [REDACTED] throughout Afghanistan for the period of May 1, 2022, to November 30, 2023. We have issued our report thereon dated November 27, 2024 with a modified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of May 1, 2022 through November 30, 2023, we considered [REDACTED] internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of [REDACTED] internal control. Accordingly, we do not express an opinion on the effectiveness of [REDACTED] internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We considered the deficiency described in the accompanying *Schedule of Findings and Questioned Costs*, as Finding 2024-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified seven deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*, as Finding 2024-02, Finding 2024-

03, Finding 2024-04, Finding 2024-05, Finding 2024-06, Finding 2024-07, and Finding 2024-08 are considered to be significant deficiencies.

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

Response to Findings

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

Purpose of this Report

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

Restriction on Use

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

Conrad LLP

Lake Forest, California
November 27, 2024

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
[REDACTED]

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States by [REDACTED] under Grant Agreement Nos. [REDACTED] and [REDACTED] (Grants) in [REDACTED] throughout Afghanistan for the period of May 1, 2022, to November 30, 2023. We have issued our report thereon dated November 27, 2024 with a modified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether [REDACTED] Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed eight (8) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2024-01, 2024-02, 2024-03, 2024-04, 2024-05, 2024-06, 2024-07, and 2024-08.

[REDACTED] Response to Findings

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

Purpose of this Report

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

Restriction on Use

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

Conrad LLP

Lake Forest, California
November 27, 2024

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Schedule of Findings and Questioned Costs

Finding 2024-01: Missing or insufficient supporting documentation to support an equitable allocation methodology for costs charged to the Program.

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

Condition: Conrad tested a combined 536 out of 7,742 transactions in the Personnel, Fringe Benefits, Supplies, Contractual and Other Direct Costs representing \$3,572,257 out of a total of \$6,953,114 to determine if the costs were reasonable, adequately supported, allowable and properly approved.

During our testing, we identified the following:

- 1) For Personnel, Fringe Benefits, Contractual and ODC costs, we noted 368 instances where [REDACTED] calculated the allocation of costs based on budget rather than an equitable allocation methodology. [REDACTED] pooled the budget amounts of multiple programs into a general fund and then charged the programs based on the percentages calculated from the budgeted figures. This allocation procedure did not provide an equitable share of costs allocated to each program and was not compliant with federal guidelines. This resulted in \$247,738 in unsupported costs.

Cost Category	Description	Instances	Unsupported Costs
Personnel	Allocation was calculated based on budget which was not equitable allocation methodology.	133	\$ 111,801
Fringe Benefits		229	127,309
Contractual		1	453
ODC		5	8,175
		368	\$ 247,738

- 2) For Supplies costs, we noted one instance where [REDACTED] erroneously allocated 100% of the invoice cost to the program when the internal approval provided states the costs were to be split among several programs. This issue resulted in unsupported Supplies costs of \$6,670.

- 3) For ODC costs, we also noted 21 instances where [REDACTED] either did not provide the support for the percentage of shared costs charged to the programs or the support provided for the percentage of shared costs used to charge costs to the programs was unjustified as detailed source documents were not provided. As such, we were unable to determine what allocation methodology was applied to these transactions or if they were based on budget. This issue resulted in unsupported ODC costs of \$30,331.

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos. [REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
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Schedule of Findings and Questioned Costs (Continued)

In total, we noted 26 instances in ODC where [REDACTED] either incorrectly allocated costs or did not provide sufficient support to demonstrate allocated costs were consistent with the benefits received. This resulted in total unsupported ODC costs of \$38,506.

Criteria:

[REDACTED] Allocation of Shared Costs Policy, Section 2 Allocation Keys, states:

“Shared costs, notably the costs incurred for the base(s) that support implementation, are allocated using an apportionment key (fair share/simplified method) or, by exception, records of actual use...”

[REDACTED] Allocation of Shared Costs Policy, Section 2.1 Allocation of incurred costs based on an apportionment key, states:

[REDACTED] allocates actual field support costs (base shared costs) to projects subject to limits set in the approved project workplan and within the agreed budget limits. At the time of proposal and grant agreement, an estimate of value was made to budget the costs, however actual expense and actual relative values are used when preparing the reports on usage of grant funds...”

2.1.1 Timing of the share calculations

The share calculations shall be done at the planning and proposal stage by forecasting spending on project and on shared costs, and revised by replacing budgets with actual spending on a month by month basis. The ratio will be monitored to inform base allocation in the remaining months of the grant to maintain a fair share ratio.”

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

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

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

(C) The Non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.”

2 CFR 200.405, Allocable Costs, states in part:

(Continued)

[REDACTED]

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“(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost...(1) Is incurred specifically for the Federal award...”

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

2 CFR 200.303, Internal Controls, states in part:

“The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);

(b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards;

(c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards...”

Cause: [REDACTED] did not follow its cost allocation policies and procedures. [REDACTED] stated that a manual cost allocation evaluation is performed at the completion of each program. Due to the tremendous effort and staffing requirements in conducting the evaluation, it was not feasible for [REDACTED] to perform the cost allocation evaluations on an ongoing basis. [REDACTED] stated that they are in the process of implementing a new accounting system that will perform actual allocation studies efficiently to equitably allocate shared costs. In addition, [REDACTED] did not have adequate management oversight to ensure allocated shared costs are properly supported by source documentation.

Effect: Lack of adequate reviews of allocated shared costs and system to keep track of actual level of effort increases the risk that USG will overpay for work under the programs, including services that were never rendered, or are not related to the programs.

Questioned Costs: We identified \$284,739 in unsupported costs and \$33,457 in associated indirect costs, which resulted in total unsupported costs of \$318,196.

Recommendation:

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

- (1) We recommend that [REDACTED] provide adequate allocation support to demonstrate that the costs charged were consistent with the benefits received or return \$318,196 of questioned costs.
- (2) We recommend that [REDACTED] review their cost allocation methodology and process and implement a system that allocates costs that are equitable among different Programs rather than using budget as the basis for allocating costs.
- (3) We recommend that [REDACTED] management improve their oversight of allocation studies and ensure that the process performed is in line with their shared costs policy.
- (4) We recommend that [REDACTED] implement additional management oversight to ensure adequate allocation support is maintained for shared costs charged to the Program as well as oversight over the shared costs process to ensure compliance with their policies and procedures.

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-02: Indirect cost rate was not updated within grant agreement requirements.

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

Condition: During our testing of Indirect Costs, [REDACTED] did not adjust the predetermined indirect cost rate approved in the Grant No. [REDACTED] modification 2, to reflect the updated provisional rate approved in a subsequent Negotiated Indirect Cost Rate Agreement (NICRA). Using the subsequent approved provisional rates in the NICRA, we calculated the variance, and the amounts represent an over-charge as below.

Indirect Cost	Base Amount	Rate Applied	Indirect Costs	Revised Rate	Audited IDC Amount Based on Revised Rate	Over-charge
2022	\$2,346,767	12.72%	\$298,509	11.75%	\$ 275,745	\$ 22,764
2023	1,645,426	12.72%	209,298	11.75%	193,338	15,960
Total	\$3,992,193		\$507,807		\$ 469,083	\$ 38,724

Criteria:

According to Section 1.14 – Attachment 3 Standard Provisions of the Grant Agreement with USAID dated June 10, 2022:

“RAA2. Indirect Costs – Negotiated Indirect Cost Rate Agreement (NICRA) (NOVEMBER 2020)...

(b) Provisional indirect cost rates must be established for the recipient's fiscal years during the term of this award. Pending establishment of revised provisional or final rates, allowable indirect cost will be reimbursed at the rates, on the bases, and for the periods shown in the Schedule of this award...

(e) The results of each negotiation will be set forth in a Negotiated Indirect Cost Rate Agreement (NICRA) signed by both parties and is automatically incorporated into this award...

(f) Pending establishment of final indirect cost rates for any fiscal year, the recipient will be reimbursed either at negotiated provisional rates or at billing rates acceptable to the AO...”

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...”

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

(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.”

Cause: [REDACTED] did not adjust and did not have a policy to adjust the predetermined indirect cost rate to the updated provisional rate as required by the terms of the award.

Effect: [REDACTED] lack of a policy to adjust indirect cost rate to reflect the approved provisional rate resulted in [REDACTED] over-charging the U.S. Government for indirect costs.

Questioned Costs: We identified \$38,724 in ineligible costs.

Recommendation:

- (1) We recommend that [REDACTED] refund \$38,724 in ineligible costs to the U.S. Government.
- (2) We recommend that [REDACTED] develop and implement policies and procedures to ensure the predetermined indirect cost rate listed in the Grant Agreements is adjusted to updated provisional rate or final rate.

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-03: Missing supporting documentation for cost charged to the programs.

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

Condition: Conrad tested a combined 264 out of 5,883 transactions in the Personnel, Contractual and Other Direct Costs representing \$1,305,078 out of a total of \$3,381,082 to determine if the costs were reasonable, adequately supported, allowable and properly approved. During our testing, we noted the following:

- Twenty-seven (27) instances in Personnel where [REDACTED] did not provide supporting documentation to substantiate the payroll corrections reflected on the employee's pay slips and policies to substantiate various fringe benefits paid to employees. This issue resulted in unsupported Personnel costs of \$1,798.
- One (1) instance in Contractual where additional construction work not listed in the original construction contract was performed and [REDACTED] was not able to provide prior approval for the additional work. This resulted in unsupported Contractual costs of \$3,663.
- Three (3) instances in ODC where [REDACTED] did not provide supporting documentation to substantiate the accrual of audit costs to one of the two programs under audit. This resulted in unsupported ODC costs of \$4,042.

The issues identified above resulted in total unsupported questioned costs of \$9,503.

Criteria:

[REDACTED] **Finance Manual, Transactions General Principles**, states in part:

"All transactions should be supported by documentary evidence, which becomes part of the accounting records..."

Finance Manager reviews the expenses in Field Connect before they are posted in [REDACTED] at the mid-month posting, or at the month end closing. In case of needs in some of country Programs, Field Specialist review Field Connect entries to strengthen control."

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

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

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

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Cause: [REDACTED] management did not follow its finance manual to review and ensure all transactions were adequately supported by document evidence due to poor management oversight.

Effect: Missing supporting documentation for costs charged to the programs increased the risk of the U.S. government overpaying for costs or paying for costs not incurred.

Questioned Costs: We identified \$9,503 in unsupported costs and \$1,117 in associated indirect costs, which resulted in total unsupported costs of \$10,620.

Please note the amount questioned under this finding of \$3,443 and the associated indirect costs of \$405 totaling \$3,848 have already been questioned in **Finding 2024-01**. Therefore, in the SPFS presentation, the amount of \$6,772 was questioned under this finding. However, if these costs are found to be supported under Finding 2024-01, then total questioned costs identified under this finding should be questioned and should be refunded under this finding.

Recommendation:

- (1) We recommend that [REDACTED] provide sufficient documentation to support the costs incurred were correctly charged to the Program or return \$10,620 in unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop and implement additional monitoring policies and procedures to ensure management reviews all transactions to ensure supporting documentation is maintained.

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-04: Procurement procedures were not performed on consultants in accordance with [REDACTED] procurement policy.

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

Condition: Conrad tested 104 out of 2,615 transactions in Other Direct Costs representing \$127,990 out of a total of \$625,409 to determine if the costs were reasonable, adequately supported, allowable and properly approved. During our testing, we noted seven (7) instances where [REDACTED] did not perform procurement procedures for consultants, which resulted in unsupported ODC costs of \$8,499.

Criteria:

[REDACTED] Procurement Policy, 2.1.3. Principle of Best Value for Money, states:

“Best value for money” means the goods and/or services supplied should represent the required quantity and quality, available within the time required and at the lowest acceptable cost.

This means selecting offers that present the optimum combination of factors such as appropriate quality, life-cycle costs, delivery time and other parameters, which can include social, environmental or other strategic objectives that meet the end-user needs. Best value does not necessarily mean the lowest price option, but rather represents the best return on the investment, taking into consideration the evaluation criteria in the specified solicitation documents.”

[REDACTED] Procurement Policy, Section 4.9.3. Consultancies, states:

“.. [REDACTED] keeps a Consultants Database, but in most cases a regular procurement process is still required.”

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 200.319, Competition, states in part:

“(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids or requests for proposals

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

must be excluded from competing for such procurements..."

2 CFR 200.404, Reasonable Costs, states in part:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to...

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

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

Cause: [REDACTED] stated a standard recruitment process for employees was conducted on Consultants and therefore, no procurement was necessary.

Effect: Due to the lack of procurement and competitive bidding documentation, there is a risk that U.S. government may have overpaid for goods and services.

Questioned Costs: We identified \$8,499 in unsupported costs and \$999 in associated indirect costs, which resulted in total unsupported costs of \$9,498.

Please note the entire amount questioned under this finding of \$8,499 and the associated indirect costs of \$999 have already been questioned in **Finding 2024-01**. In addition, the amount questioned under this finding of \$1,645 and the associated indirect costs of \$193 have already been questioned in **Finding 2024-03**. Therefore, in the SPFS presentation, no questioned costs were presented under this finding. However, if these costs are found to be supported under Finding 2024-01 and Finding 2024-03, then they would still be questioned and should be refunded under this finding.

Recommendation:

- (1) We recommend that [REDACTED] provide support showing consulting services were properly procured, a reasonableness check was performed or return \$9,498 in unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop policies and procedures to ensure that when a consultant is recruited, [REDACTED] procurement policies and procedures are followed.

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-05: Procurement procedures were not performed on a direct purchase.

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

Condition: Conrad tested 104 out of 2,615 transactions in Other Direct Costs representing \$127,990 out of a total of \$625,409 to determine if the costs were reasonable, adequately supported, allowable and properly approved. During our testing, we noted one (1) instance where laptops were purchased but due to an urgent need for these items, procurement procedures were not performed which resulted in unsupported ODC costs of \$1,185.

Criteria:

[REDACTED] **Procurement Policy, Annex 3 “Regular Procurement Procedures”**, states:

[REDACTED] *requests, collects and compares two or more quotations from potential suppliers. (An insufficient number of quotes needs to be justified...)*

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 200.319, Competition, , states in part:

“(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids or requests for proposals must be excluded from competing for such procurements...”

2 CFR 200.404, Reasonable Costs, states in part:

“A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to...”

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

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

Cause: For the laptop purchase, [REDACTED] did not have a policy for urgent items to ensure they were still properly procured.

Effect: Due to the lack of procurement and competitive bidding documentation, there is a risk that U.S. government may have overpaid for goods and services.

Questioned Costs: We identified \$1,185 in unsupported costs and \$139 in associated indirect costs, which resulted in total unsupported costs of \$1,324.

Recommendation:

- (1) We recommend that [REDACTED] provide support showing the goods and services were properly procured, a reasonableness check was performed, or return \$1,324 in unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop policies and procedures to ensure that urgent item purchases follow proper procurement prior to purchase.

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-06: Lack of reasonableness check for direct purchases.

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

Condition: Conrad tested 104 out of 2,615 transactions in Other Direct Costs representing \$127,990 out of a total of \$625,409 to determine if the costs were reasonable, adequately supported, allowable and properly approved. During our testing, we noted three (3) instances where the transactions for training hall rental, training costs and Wi-Fi equipment were below [REDACTED] direct purchase threshold of \$1,000. As such, price reasonableness checks were not conducted. This issue resulted in unsupported ODC costs of \$1,343.

Criteria:

[REDACTED] Procurement Policy, Annex 3 “Regular Procurement Procedures”, states:

Threshold per category (in USD)		Procedure and summary	Documents – and Authorization	Archiving	More info
Supplies & Services	Works				
< 1'000 (for GSO < 2'500)		Direct Purchase – simplest procurement procedure. PR, RFQ and PO are optional.	(PR – Requestor & BH) PDF – BH & FIN (& Preparer for GSO) Invoice/Receipt – (Supplier)	Give PDF and Receipt to Finance for archiving.	4.3 Direct Purchase

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 200.404, Reasonable Costs, states in part:

“A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to...

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

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award’s

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

cost."

Cause: [REDACTED] did not have a policy in place for items under the direct purchase threshold to ensure these purchases were in accordance with the 2 CFR 200.404 Reasonable Costs requirement.

Effect: Due to the lack of reasonableness check, there is a risk that U.S. government may have overpaid for goods and services.

Questioned Costs: We identified \$1,343 in unsupported costs and \$158 in associated indirect costs, which resulted in total unsupported costs of \$1,501.

Recommendation:

- (1) We recommend that [REDACTED] provide support showing the goods and services were reasonable, a reasonableness check was performed, or return \$1,501 in unsupported costs and associated indirect costs.
- (2) We recommend that [REDACTED] develop policies and procedures to ensure a price reasonableness check is performed on direct purchases to meet the 2 CFR 200.404 requirement.

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-07: Costs charged were related to other programs.

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

Condition: Conrad tested a combined 277 out of 6,486 transactions in the Personnel, Travel and Other Direct Costs representing \$273,556 out of a total of \$2,158,722 to determine if the costs were reasonable, adequately supported, allowable and properly approved. During our testing, we noted the following transactions were related to other programs:

Description	Cost Categories	Instances	Unsupported Costs
Supporting document referenced to another project name and/or project codes	Personnel	16	\$ 15,244
	Travel	7	6,596
	Other Direct Costs	10	11,595
		33	\$ 33,435

Criteria:

[REDACTED] Finance Manual, Transactions Dimensionality Coding, states in part

“4.18 Project code and new FUND codes are created in [REDACTED] at [REDACTED] (based on the signed grant). It identifies a set of activities to be implemented in a specific location. The exactness of project dimension coding is crucial because this is used as base for donor fund coding.”

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

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...
- (g) Be adequately documented...”

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

2 CFR 200.405, Allocable Costs, states in part:

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

(1) Is incurred specifically for the Federal award;

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

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

(c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies...”

2 CFR 200.451, Losses on other awards or contracts, states in part:

“Any excess of costs over income under any other award or contract of any nature is unallowable... Also, any excess of costs over authorized funding levels transferred from any award or contract to another award or contract is unallowable...”

Cause: [REDACTED] claimed that the reclassified costs were related to the programs. In addition, [REDACTED] stated that some costs were split between programs in order to obtain an equitable share of costs. For example, one shared cost would be charged 100% to one program one month and in the next month, it would be 100% charged to a different program.

Effect: Improper accounting practices and costs coded to another program cause the U.S. government to fund items that are not related to the Program.

Questioned Costs: We identified \$33,435 in unsupported costs and \$3,929 in associated indirect costs, which resulted in total unsupported costs of \$37,364.

Please note the amount questioned under this finding of \$15,244 and the associated indirect costs of \$1,791 have already been questioned in **Finding 2024-01**. In addition, the amount questioned under this finding of \$402 and the associated indirect costs of \$48 have already been questioned in **Finding 2024-04**. Therefore, in the SPFS presentation, the net amount of \$19,879 was questioned under this finding. However, if these costs are found to be supported under Finding 2024-01 and Finding 2024-04, then they would still be questioned and should be refunded under this finding.

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

Recommendation:

- (1) We recommend that [REDACTED] provide evidence and sufficient justification to demonstrate that these costs were 100% allowable and allocable to the programs or return \$37,364, or any portion thereof, which cannot be supported as allocable to the programs to the U.S. government.
- (2) We recommend that [REDACTED] develop policies and procedures to ensure a clear audit trail and supporting documentation are maintained to prove reclassified expenses are related to the program.
- (3) We recommend that [REDACTED] develop policies and procedures to ensure costs split among different programs are consistent with the benefits received and supporting documentation shows all program codes related to the transactions.

[REDACTED]
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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-08: Unallowable costs were charged to the programs.

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

Condition: Conrad tested a combined 376 out of 4,474 transactions in the Fringe Benefits, Supplies and Other Direct Costs representing \$2,395,169 out of a total of \$4,197,441 to determine if the costs were reasonable, adequately supported, allowable and properly approved. During our testing, we noted the following unallowable costs:

Description	Cost Categories	Instances	Unsupported Costs
Fringe benefits such as rest and recuperation costs and payroll taxes were 100% charged when evidence showed associated payroll costs were only 50% charged.	Fringe Benefit	3	\$ 1,044
Incorrect tax payment was identified by [REDACTED] but was not refunded to the program.	Supplies	2	422
Costs for employee farewell parties were charged to the program	Other Direct Costs	2	346
		7	\$ 1,812

Criteria:

[REDACTED] Finance Manual, Transactions General Principles, states in part:

“All transactions should be supported by documentary evidence, which becomes part of the accounting records...”

Finance Manager reviews the expenses in Field Connect before they are posted in [REDACTED] at the mid-month posting, or at the month end closing. In case of needs in some of country Programs, Field Specialist review Field Connect entries to strengthen control.”

2 CFR 200.438, Entertainment costs, states.

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

“Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.”

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

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

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

2 CFR 200.405, Allocable Costs, states in part:

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

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

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

Cause: [REDACTED] did not have adequate management oversight to ensure unallowable costs were not charged to the funding agency. In addition, [REDACTED] management was unfamiliar with the unallowable costs requirements in 2 CFR 200.

Effect: Ineligible costs were charged to and paid by the U.S. government.

Questioned Costs: We identified \$1,812 in ineligible costs and \$213 in associated indirect costs, which resulted in total ineligible costs of \$2,025.

Please note the amount questioned under this finding of \$1,044 and the associated indirect costs of \$123 have already been questioned in **Finding 2024-01**. Therefore, in the SPFS presentation, the amount of \$858 was questioned under this finding. However, if these costs are found to be supported under Finding 2024-01, then they would still be questioned under this finding and should be refunded.

Recommendation:

- (1) We recommend that [REDACTED] provide sufficient documentation to support that the costs incurred were related to the Program or return the \$2,025 of ineligible costs and associated indirect costs.

(Continued)

[REDACTED]

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Schedule of Findings and Questioned Costs (Continued)

- (2) We recommend that [REDACTED] develop policies and procedures to ensure sufficient management review of transactions so that ineligible costs are not charged to the U.S. government.
- (3) We recommend that [REDACTED] hold trainings to ensure [REDACTED] management and staff become familiar with unallowable costs requirements in 2 CFR 200.

[REDACTED]

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Status of Prior Audit Findings

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

1. **Report: SIGAR 22-16 Financial Audit – [REDACTED] in Afghanistan: Audit of Cost Incurred by [REDACTED]**

Finding 2022-01: Indirect cost rate was not updated within grant agreement requirements. The Auditor’s testing found that the auditee did not adjust the provisional indirect cost rate approved in the award to reflect the updated provisional rate approved in a subsequent Negotiated Indirect Cost Rate Agreement (NICRA).

Status: For the current engagement, we identified 1 instance where [REDACTED] did not adjust the provisional indirect cost rate applied to the updated provisional rate approved in a subsequent Negotiated Indirect Cost Rate Agreement (NICRA). **As such, Conrad concluded that [REDACTED] has not taken adequate corrective action on this finding.**

Finding 2022-02: Fines related to visas and licenses were charged to the program. The Auditor tested 31 samples totaling \$10,159 out of a population of 157 transactions totaling \$25,961 for the Non-Payroll Personnel Costs and 102 samples totaling \$211,598 out a population of 3,172 transactions totaling \$650,636 for Other Direct Costs to determine if the costs incurred under the Program were adequately supported, accurate, and properly approved.

- In 10 out of the 31 samples tested for non-payroll personnel costs, the auditee charged fines related to late fines associated with visa processing of employees to the Program. This resulted in overcharges to USAID in the amount of \$2,971.
- In 1 out of the 102 samples tested for the other direct costs, the auditee charged a two month fine related to the late renewal of a Very High Frequency (“VHF”) license to the Program. This resulted in overcharges to USAID in the amount of \$102.

The auditee did not have policies and procedures in place to ensure its staff initiate the renewal process for visas and BHF licenses in a timely manner to avoid any late fines. In addition, the auditee did not have a procedure in place to review and exclude unallowable costs from Program costs.

[REDACTED]

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Status of Prior Audit Findings (Continued)

Status: For the current engagement, no instances of fines related to visas and licenses were identified. As such, Conrad concluded that [REDACTED] has taken adequate corrective action on this finding.

Finding 2022-03: Unallowable Personnel Costs Charged to the Program. The Auditor tested 325 samples totaling \$258,939 out of a population of 3,422 transactions totaling \$1,914,614 for Personnel Costs to determine if the costs incurred under the program were adequately supported, accurate, and properly approved.

- In 2 out of 325 samples tested, an overpayment of salary was made to each of the employees by error but was not refunded to the program This resulted in overcharges to USAID in the amount of \$1,459.
- In 1 out of 235 samples tested, a payment for safety compensation was made to an employee outside of the agreement effective dates and as such is not related to the Program. This resulted in overcharges to USAID in the amount of \$175.

The auditee stated they did not adhere to its payroll policy to perform the monthly reconciliation because the number of transactions to review is overwhelming and as such only performs reconciliation periodically.

Status: For the current engagement, no instances of overpayment of salary or payments for safety compensations made outside of the agreement effective dates were identified. As such, Conrad concluded that [REDACTED] has taken adequate corrective action on this finding.

[REDACTED]

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[REDACTED] Responses to Audit Findings

Finding 2024-01: Missing or insufficient supporting documentation to support an equitable allocation methodology for costs charged to the Program.

Direct costs are linked to project(s), while shared costs, in [REDACTED] called base costs, are linked to base support costs. Direct costs, once are incurred, are allocated to the donor(s) funding the project. E.g. a project [REDACTED] is funded by ECHO (60%) and SDC (40%). The actual expenses that relate to this project [REDACTED] are allocated to either of the two funders, as per budget split at donor proposal preparation. [REDACTED] do not split each expense by apportioning it to all donors funding the project. Only in the event of very large costs incurred for the project, which all donors funding the project are contributing to, an allocation to multiple funders is booked. Hence, the allocation of costs across funders in co-funding projects is achieved on the total costs allocated by cost category, as agreed with the donor at proposal stage, rather than at each transaction booking.

Shared/base costs fall under the fair-share calculations method. The fair-share principle is that each project must shoulder a certain amount of base costs, in a [REDACTED] location, based on the weight of that project versus the total projects implemented in that location during that month. Based on this principle, the fair-share calculations are calculated monthly and monitored month after month. Until the new Financial Planning & Analysis tool is rolled out in Q4 2025, [REDACTED] doesn't have an automated system to calculate and automatically reallocate all base costs each month based on fair-share percentages across all donors' awards. Therefore, during this transition time, [REDACTED] uses the fair-share calculations to charge base costs to each donor within the fair-share threshold by the end of the award period (i.e. by the end of the award, the fair share will have been charged).

Finding 2024-02: Indirect cost rate was not updated within grant agreement requirements.

[REDACTED] applies the NICRA provisional rate retroactively from the month after the one in which the official rate document is received.

In this specific case, the award in question was ending two months after the receipt date of the new provisional rate. Considering that most of the award cash was already requested, the application of the new rate would have created a final report with a negative amount. This was the reasoning behind the lack of update for first grant in the list above.

For the 2023 award, the provisional rate was updated in later months and reflected for the entire timeframe. Therefore, although the audit spotted an overcharge of NICRA during the audited timeframe, this was retroactively corrected before the end of the award, so it is no longer the case. So, no payback could be considered for an open award.

[REDACTED]

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[REDACTED] Responses to Audit Findings (Continued)

Finding 2024-03: Missing Supporting documentation for cost charged to the programs

- 1. Payroll Corrections:** Payroll corrections are supported by a monthly payroll report provided by field HR Officer and submitted to HR Manager for the next month's payroll. The report contains information on new staff joiners, employees leaving the organization, contract amendments and - importantly - the changes and corrections. Each field HR Officer reviews the payslips to ensure that the correct entitled amount is paid to the employees. The correction mainly addresses any incorrect amounts and amounts from the previous month not paid within the same month but to be paid in the next month (e.g. if the employee starts late in the month after the payroll has been processed), changes in the allowance based on the approved policies). The checks performed by the field HR staff are designed to ensure the right entitled amount is paid within the approved applicable payroll policies.
- 2. Additional work and materials for construction [REDACTED]**

The payment made was for additional works undertaken during the originally planned rehabilitation of water points (the rehabilitation of which had already been approved), not for additional water points (which would have needed approval).

The additional payment covers the fact that the contractor needed to use additional labour workforce and material to complete the repair of the same water points in the construction agreement. However, the cost of these additional workers and materials had not been captured in the original agreement. The need for these additional costs became known during the course of the works rather than beforehand, which is why it was not shown in the original works contract. Verbal agreements and what's app voice messages confirm the agreement between [REDACTED] Wash Manager and the contractor on the extra work force and material being used to complete the work under the existing agreement, but unfortunately a formal amendment to the contract was not created. A note to file was submitted alongside the contract as part of the payment package to explain and justify these additional costs, given that they were incurred in the implementation of the agreed project activities.
- 3. Accrual of Audit Costs:**

[REDACTED] projects are funded by various donors who require that an audit is carried out by the end of the project implementation. Some donors require [REDACTED] to manage the audit on their behalf. In this last case, [REDACTED] selects an auditors' firm approved by the donor and/or certified for auditing that specific donor's awards.

The costs that [REDACTED] incurs for the finalization of the audit are shouldered by the donor. An estimated cost for the audit is included in the donor budget during the proposal budget preparation. As the audit costs are incurred after the closure of the award, after the final report has already been sent to the donor, accruals bookings are required to allocate the estimated audit costs to the donor.

The estimation of the audit fees is based on prior years' costs, with some buffer factored in to allow for additional cost fluctuation from one year to the next. For this award, estimated audit costs are based on the 2020 audit fees from CROWE audit firm which audits USAID, DFID and EU awards implemented by [REDACTED]

The audit fees estimates are calculated based on the standard percentage of 0.126% applied to the total award amount net of admin.

(Continued)

[REDACTED]

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[REDACTED] Responses to Audit Findings (Continued)

Finding 2024-04: Procurement procedures were not performed on consultants in accordance with [REDACTED] procurement policy

In 2018, [REDACTED] management decided to divide responsibilities for service contracts between Logistics and Human Resources depending on the nature of the service provided. The attached memo explains the differences between a Special Service Agreement and a Consultancy Agreement. You can see the specificities in the table in the memo below. The two cases that were flagged were handled in compliance with the guidelines laid down in the memo.

Hiring people under Special Service Agreement (SSA) is an exception. Please find attached the Guideline for Approving Requests to Contractually Work Remotely, where it is stated that [REDACTED] wants to have such workers employed under an Employer of Record's (EoR) contract. We also have a strict policy on who can be working remotely, and the cases identified by the audit are former [REDACTED] staff who qualify for the service needed. Since 2024, [REDACTED] has made good improvements and have more and more people on EoR. For instance, [REDACTED] one of the cases flagged by the audit finding, is one of those who is no longer on an SSA anymore but is now on an EoR contract. [REDACTED] does not have EoR in all countries; for example, in Canada, as we have only one staff member ([REDACTED] - also flagged in the audit under this finding), she is not on an EoR contract yet. We follow our internal guidelines and are compliant with recruitment best practices.

[REDACTED] has been working with [REDACTED] since 2015 for some years in the Afghanistan Country Programme prior to moving to remote work, and [REDACTED] has been working for years in [REDACTED] Country Programmes (starting from 2003).

Please find below the memo with the explanation table:

			Date: 08.11.2018
		Memo	Subject: Management of Consultancy agreements
To	[REDACTED] NI, Country program management, Affiliate directors		
From/title	[REDACTED]		
Email address	[REDACTED]		

The HR Department and Logistics team have divided responsibilities over the management of consultancy agreements at the [REDACTED]

HR will be managing consultancy agreements where an individual offers their services in time. This type of agreements from now on will be called "Special Service Agreement".

Logistics remains responsible for Consultancy Agreements where an individual or contractor delivers a product or defined task.

What's the difference between a Special Service Agreement and a Consultancy Agreement?

Type:	Special Service Agreement	Consultancy Agreement
Process owner:	Human Resources	Logistics
Requirement:	Individual registered as consultant	Individual registered as a consultant
Condition:	Local regulation allows consultants to work for a single client.	Procurement process can be respected
Selection through:	Recruitment process	Procurement process
Commitment:	Provision of time	Completion of a task
Duration:	Short-term or long-term	Short-term
Work defined by:	Job description	Terms of Reference
Example:	[REDACTED] advisor working remotely from home	Hiring a consultant to do a survey or provide a training

(Continued)

[REDACTED]

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[REDACTED] Responses to Audit Findings (Continued)

Finding 2024-05: Procurement procedures were not performed on a direct purchase.

The laptop purchase was carried out within the framework of the [REDACTED] procurement procedures. This finding seems to result from a misunderstanding about which [REDACTED] procurement route was used to purchase the laptop.

The laptop was procured online by [REDACTED]. The [REDACTED] has a different threshold for direct purchase than [REDACTED] Country Programmes (see Annex 1 of [REDACTED] Procurement Guideline 6.0 and 7.0): Field threshold for direct purchase is 1000 USD; [REDACTED] threshold for direct purchase is 2500 USD.

Finding 2024-06: Lack of reasonableness check for direct purchases.

All the 3 instances pointed out by the auditors are below [REDACTED] threshold of \$1'000 for direct purchase. The [REDACTED] Procurement Guideline (a copy of which was submitted with [REDACTED] BHA award application) allows [REDACTED] Logistics to process Purchase Requests with a total value of less than \$1'000 using a single quote. The transactions flagged by the auditors were conducted in compliance with this guideline.

Although it is not documented in most cases, the buyers ([REDACTED]) in practice compare previous prices and the existing market prices (offered by other suppliers of similar products) before deciding to proceed with procurement of Purchase Requests with value below \$1'000. If the Logistics Manager or Budget Holder have doubts about the reasonableness of the cost, they can stop the purchase by not signing off on the planned procurement.

Finding 2024-07: Costs charged were related to other programs.

The transactions related to these findings fall into several different groupings:

- Attendance at the annual Afghanistan BHA partner meetings, where the [REDACTED] CD and PFM were invited by BHA to attend, and the costs were charged to the award.
- Provision of food for [REDACTED] clinical staff who were [REDACTED] by the DFA in the course of their duties working at a BHA-supported health facility and held for several days. (In Afghanistan no food is provided in detention facilities).
- Cost of providing IMNCI training for [REDACTED] clinical staff working who were delivering these services to beneficiaries under the BHA award.
- Rental payment for a sub-base in [REDACTED] from which BHA award activities were to be implemented. However, within the first few months of the project, the location had to be changed due to [REDACTED] being transferred to a different province by the de facto authorities. (At this point the rental contract was ended).
- [REDACTED] implemented a new financial system, which led to a change of project code from [REDACTED] it appears that this has led to several transactions being questioned.
- There are two payments for information management services from [REDACTED] M shared service centre. These costs enabled [REDACTED] to set-up the MEAL dashboard for the BHA-funded project needed to track indicators for project management and donor reporting.
- There are also several shared costs that appear under this section of the audit report – e.g. the cost of bank transfers between the capital base and a location where BHA-funded activities were being implemented. [REDACTED] approach is to charge a reasonable share of these costs to each applicable donor over the course of their award rather than to split every transaction across several different donors.

(Continued)

[REDACTED]

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- The remaining lines appear to relate to reclasses between two different BHA-funded awards.
 - Reclassification (reclass) occur when there are transactions with wrong dimensions (such as wrong GL Account Codes, Award, or project number) that need to be modified or corrected, or where there is an incomplete or unclear description to be changed, etc. Reclass is done using the same transaction date, so as to ensure the same exchange rate is applied - so the same document date and posting date are used as in the initial transaction. The period is based on the period in which the reclass transaction is posted into the accounting system. All reclass must be approved via email before posting. If there is a change request for sector, project or award, approval is required from the budget holder of the budget to which the transaction is to be reclassified.

Prior to reclass, the Finance Partner checks to ensure costs are eligible to charge, based on the donor award agreement and compliance documents, the award implementation period, the cost being within budget availability and having appropriate approval.

The attachment and the email approval need to be saved in SharePoint as reference to the reclassification for audit purposes.

Finding 2024-08: Unallowable costs were charged to the programs .

- **Fringe benefits:**
 - Rest & Recuperation: R&R allowance for the employee working directly for the BHA funded project is 100% allocated to the BHA award, but for those staff shared across different projects or sectors, R&R costs are allocated based on the available budget amount under each project/award. [REDACTED] until the new FP&A tool is rolled out in Q4 2025, doesn't have an adequate system to calculate and automatically reallocate, monthly, all costs based on fair-share percentages across all donors' awards.
 - Payroll Tax: Previously payroll taxes were charged based on the available budget amount under each award covering the specific role within the project or base [REDACTED] has since improved the payroll tax allocation process where the allocations are based on the fund matrix and the employee labour report to allocate the correct percentage to each donor.
- **Incorrect tax payment**
 - The transaction number 110000037378 under Supplies - [REDACTED] p.9 is a wrong booking that was made in the field. Initially the pdf was opened for the referral contribution for a sick patient (support for referrals is an activity covered under [REDACTED] award). However, but the cash was lost by the payment disbursement requestor due to the security incident highlighted in the file note attached to the payment documents. The pdf was recorded with the initial description (patient referral) rather than the revised description on the pdf which was approved by the budget holder (cash loss). Normally the entry posted into the system or expense sheet is checked by the Project Support Manager in the field, but due to a gap during staff transition, it appears that this error was unfortunately not identified at the time.

[REDACTED] has since put in place internal control processes whereby we have dual signature approval, review of financial documents is done by both the budget holder and the finance department, and posting into the system is initiated by the finance officer but approved by the finance manager.

[REDACTED] concurs with the USD 202.34 disallowance.

(Continued)

[REDACTED]

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- o Initially the payment was made to the supplier on 12/10/2024 under transaction number (110000048831 & 110000048832) booking the payment (gross amount) as debit and tax amount as (credit) 24400. Only the net amount was paid to the supplier.

Later the payment was rejected by the supplier's bank as the account provided by the supplier was inactive. The payment was then credited back to [REDACTED] account. The reversal was posted using the net amount showing on the bank statement, rather than reversing the complete transaction amount that was initially posted in the system that reflected the tax amount.

[REDACTED] has since put in place a workflow in the new accounting system whereby entries made by the finance officer are reviewed and approved by the finance manager to ensure correctness and completeness.

[REDACTED] concurs with the USD 219.49 disallowance.

- **Cost of employee farewell party:**

- o The cost reported under transaction number [REDACTED] - ODC [REDACTED] p.3 is a cost associated with staff members who were involved in management and oversight of the BHA project (Deputy Country Director and Project Manager). The farewell was to appreciate the staff member for the valuable contribution they made to the project.

The management concurs with this finding and will be organising more regular grant awareness trainings for the entire team involved in the BHA project to refresh them on allowable costs and the related BHA requirements.

(Continued)

[REDACTED]

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

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

(1) Finding 2024-01:

- [REDACTED] explained that direct costs are allocated to donors funding a project based on the budget split agreed upon at the proposal stage. Costs are not apportioned transaction by transaction unless they represent significant expenses shared among all donors funding the project.
- [REDACTED] stated that shared/base costs are allocated using a "fair-share" principle, where each project is charged a proportion of shared costs based on its relative weight of each project versus the total projects implemented in that location during a given month. .
- [REDACTED] acknowledged that until the planned rollout of a Financial Planning & Analysis tool in Q4 2025, there is no automated system to allocate base costs monthly. Instead, manual fair-share calculations are performed each month, with the total allocation reconciled within the fair-share threshold by the end of the award period.
- [REDACTED] asserted that its methodology complies with donor agreements by focusing on total cost allocation by category, rather than individual transaction-level apportionment.

Auditor Rebuttal:

- [REDACTED] did not explicitly state whether they agreed or disagreed with the finding. Although [REDACTED] provided an explanation of its allocation methodology and acknowledged limitations, its reliance on manual calculations increases the risk of potential errors or inequities in the allocation of shared costs.
- [REDACTED] response did not include supporting documentation to demonstrate the accuracy or consistency of its fair-share calculations or evidence that costs are equitably allocated across donors during the award period.
- While [REDACTED] proposed rollout of an automated system in Q4 2025 may address these concerns in the future, the absence of an automated solution in the interim leaves gaps in internal controls over cost allocations.

As such, our finding and recommendations remain unchanged.

[REDACTED]

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Auditor's Rebuttal to [REDACTED] Responses to Audit Findings (Continued)

(2) Finding 2024-02:

- [REDACTED] explained that it applies the NICRA provisional rate retroactively starting from the month following the receipt of the official rate document.
- For the award in question, the new provisional rate was not updated because the award was nearing its end and the majority of funds had already been requested. [REDACTED] stated that applying the new rate would have resulted in a negative balance in its final financial report to USAID.
- For the 2023 award, [REDACTED] updated the provisional rate in subsequent months, applying it retroactively for the entire award timeframe. [REDACTED] clarified that although the audit identified an overcharge of NICRA during the audited period, this was corrected retroactively before the end of the award period, eliminating the overcharge.
- [REDACTED] asserted that because the overcharge was corrected during the open award period, no payback is applicable.

Auditor Rebuttal:

- [REDACTED] did not explicitly state whether they agreed or disagreed with the finding. While [REDACTED] provided a rationale for not updating the NICRA rate for one award and explained the retroactive correction for the 2023 award, this does not align with grant agreement requirements to apply updated rates promptly.
- The decision not to apply the updated rate for the first award due to concerns over a negative final balance raises questions about compliance with grant agreement terms and the transparency of indirect cost allocations.
- Although [REDACTED] asserted that the overcharge was corrected, evidence supporting the corrected overcharge was not provided. As such, we cannot conclude if the overcharge was actually corrected.

As such, our finding and recommendations remain unchanged.

(3) Finding 2024-03:

- **Payroll Corrections:** [REDACTED] explained that payroll corrections are documented through a monthly payroll report submitted by field HR Officers to HR Managers. These reports include

(Continued)

[REDACTED]

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Auditor's Rebuttal to [REDACTED] Responses to Audit Findings (Continued)

updates on staff changes, contract amendments, and corrections, such as adjustments for employees joining mid-month or changes in allowances per policy. Field HR staff are tasked with reviewing payslips to ensure accurate payment is in line with approved payroll policies.

- **Additional Work and Materials for Construction [REDACTED]:** [REDACTED] stated that additional payments were made for unforeseen labor and material costs required to complete the rehabilitation of water points under the original construction agreement. These costs were not included in the initial contract because they arose during the project. [REDACTED] acknowledged that while verbal agreements and WhatsApp voice messages confirmed the agreement between the Wash Manager and the contractor, no formal contract amendment was prepared. A note to file was included in the payment package to justify these costs.
- **Accrual of Audit Costs:** [REDACTED] explained that audit costs are typically estimated during budget preparation, based on prior audit expenses, and allocated to donors through accruals, as these costs are incurred after award closure. For this award, the audit cost estimation was based on 2020 fees from Crowe audit firm, calculated as a standard percentage (0.126%) of the total award amount, excluding administrative costs.

Auditor Rebuttal:

While [REDACTED] provided explanations for the three issues, these do not fully address the gaps in supporting documentation:

- For payroll corrections, [REDACTED] described internal processes but did not provide documentation that demonstrates compliance with these processes or verifies corrections for the audited transactions.
- The additional work and materials for construction lacked formal contract amendments, which are necessary to justify additional payments in alignment with procurement and contract management policies. Notes to file and verbal agreements do not suffice as adequate documentation.
- The accrual of audit costs relies on estimates and historical data, but the audit could not verify whether these estimates were accurate or whether actual costs were reconciled with donors as required.

As such, our finding and recommendations remain unchanged.

(Continued)

[REDACTED]

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Auditor's Rebuttal to [REDACTED] Responses to Audit Findings (Continued)

(4) Finding 2024-04:

- [REDACTED] explained that since 2018, the responsibility for service contracts has been divided between Logistics and Human Resources based on the nature of the service. [REDACTED] provided a memo distinguishing between Special Service Agreements (SSAs) and Consultancy Agreements and asserted that the flagged cases adhered to these internal guidelines.
- [REDACTED] noted that SSAs are used as an exception and explained that both individuals flagged in this finding were long-term former [REDACTED] staff who fulfilled specific service needs. [REDACTED] highlighted that efforts have been made to transition more workers to Employer of Record (EoR) contracts.
- [REDACTED] claimed compliance with internal guidelines and recruitment best practices but did not provide procurement documentation for the consultants identified in the audit.

Auditor Rebuttal:

Although [REDACTED] described internal guidelines and efforts to improve compliance, the lack of procurement documentation for the consultants raises significant concerns:

- [REDACTED] response did not include evidence of a competitive procurement process or documentation to demonstrate compliance with its procurement policy, particularly with Section 4.9.3, which requires procurement processes for consultants even when using the Consultants Database.
- The absence of competitive bidding or a documented reasonableness check undermines the assurance that costs incurred were reasonable, allowable, and represented best value for the U.S. government.
- [REDACTED] reliance on internal memos and exceptions does not sufficiently address the requirements outlined in its Procurement Policy or federal regulations, such as 2 CFR 200.319, which mandates full and open competition in procurement processes.

As such, our finding and recommendations remain unchanged.

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
Supporting Various Emergency Response to Vulnerable Populations Programs
throughout Afghanistan

For the Period of May 1, 2022 through November 30, 2023

Auditor's Rebuttal to [REDACTED] Responses to Audit Findings (Continued)

(5) Finding 2024-05:

[REDACTED] explained that the laptop was procured through its [REDACTED], which operates under a higher direct purchase threshold (\$2,500) compared to the field threshold (\$1,000). [REDACTED] attributed the finding to a misunderstanding of these thresholds and asserted that the purchase complied with [REDACTED] procurement procedures.

Auditor Rebuttal:

While [REDACTED] highlighted the different thresholds for direct purchases, the procurement policy still requires steps such as collecting quotations or justifying sole-source purchases. [REDACTED] did not provide documentation demonstrating these steps were taken. Compliance with federal regulations necessitates promoting competition and ensuring reasonableness for all transactions. Without evidence of adherence to these principles, the purchase remains unsupported. As such, our finding and recommendation remain unchanged.

(6) Finding 2024-06:

[REDACTED] stated that the three transactions associated with this finding were under its \$1,000 threshold for direct purchases and complied with its Procurement Guideline, which permits processing such purchases with a single quote. [REDACTED] further explained that, while not always documented, its Logistics team informally compares market prices before approving purchases under \$1,000 and that oversight by the Logistics Manager or Budget Holder ensures costs are reasonable.

Auditor Rebuttal:

While [REDACTED] policy allows single quotes for direct purchases under \$1,000, federal regulations require evidence of reasonableness to ensure compliance with cost principles. [REDACTED] did not provide documentation to substantiate its informal market price comparisons or other steps taken to verify the reasonableness of the flagged costs. This lack of documentation undermines assurances of compliance with federal standards. As such, our finding and recommendations remain unchanged.

(7) Finding 2024-07:

[REDACTED] provided explanations for the flagged transactions, grouped into several categories:

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
[REDACTED]
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Auditor's Rebuttal to [REDACTED] Responses to Audit Findings (Continued)

- **Afghanistan BHA partner meetings:** [REDACTED] staff attended at BHA's invitation, and costs were charged to the award.
- **[REDACTED] clinical staff food provision:** Costs covered meals for staff [REDACTED] by authorities while working at BHA-supported facilities.
- **IMNCI training:** Provided to clinical staff delivering services under the award.
- **Sub-base rental in [REDACTED]** Initially rented for BHA activities but ended early due to operational changes mandated by local authorities.
- **Financial system implementation:** Errors linked to project code changes from [REDACTED] to [REDACTED] led to questioned costs.
- **Information management services:** Costs for the IM shared service center helped set up the MEAL dashboard for tracking BHA-funded project indicators.
- **Shared costs:** Bank transfers and other shared expenses were allocated across multiple donors using a reasonable cost-share approach.
- **Reclassified transactions:** Adjustments to correct coding errors or update descriptions were done with documented approvals and saved for audit purposes.

Auditor Rebuttal:

While [REDACTED] offered explanations, these explanations were insufficient to support the allocability of the questioned costs included in this finding. Additionally, [REDACTED] did not provide any new supporting documentation to substantiate these costs as allowable. Without clear evidence and audit trails to substantiate the allocability of these costs, our finding and recommendations remain unchanged.

(8) Finding 2024-08:

[REDACTED] provided the following explanations for the flagged costs:

- **Fringe Benefits:**
 - *Rest & Recuperation (R&R):* R&R costs for employees directly working on the BHA-funded project were allocated 100% to the BHA award. For shared staff, costs were allocated based on available budget amounts, as [REDACTED] currently lacks a system to

(Continued)

[REDACTED]

Financial Audit of the Special Purpose Financial Statements for Grant Agreement Nos.
[REDACTED] and [REDACTED]
Two Grants Awarded by the United States Agency for International Development
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Auditor's Rebuttal to [REDACTED] Responses to Audit Findings (Continued)

automatically calculate fair-share percentages. A new FP&A tool is planned for Q4 2025 to address this gap.

- *Payroll Tax*: Previously allocated based on available budget, the process has since been improved to use fund matrices and labor reports for accurate allocations.
- **Incorrect Tax Payments:**
 - One error occurred due to a description mismatch during field-level transactions and staff transition gaps, resulting in improper classification. [REDACTED] stated it has enhanced controls, including dual approvals and finance manager oversight.
 - A second error involved a tax payment reversal where only the net amount was refunded. [REDACTED] has implemented stricter workflows in the new accounting system to prevent such errors. [REDACTED] agreed with the disallowance of \$421.83.
- **Employee Farewell Parties:**
 - Costs for farewell events for staff involved in the BHA project were charged to the program. [REDACTED] agreed with the disallowance of \$346 and committed to regular grant awareness training to prevent similar occurrences.

Auditor Rebuttal:

Despite [REDACTED] responses and process improvements, the questioned costs remain unallowable under 2 CFR 200 due to lack of evidence proving allocability or compliance with federal regulations. Without sufficient documentation or a clear audit trail, the finding and recommendations remain unchanged.

(Continued)

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SIGAR's Mission

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