SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 15-7 Financial Audit

USAID's Afghanistan Vouchers for Increased Production in Agriculture Program: Audit of Costs Incurred by International Relief & Development, Inc.

OCTOBER 2014

SIGAR 15-7-FA/AVIPA

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 1, 2008, the U.S. Agency for International Development awarded a cooperative agreement to International Relief & Development, Inc. (IRD) to implement the Afghanistan Vouchers for Increased Production in Agriculture Program. This program was intended to increase basic food crop production in Afghanistan and enable the country to meet its food requirements by providing accessible and affordable agriculture goods to farmers, thereby contributing to community and economic development through cash-for-work programs.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed $503 million in expenses charged to the award from September 1, 2008, through April 22, 2013. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in IRD's internal controls related to the award; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether IRD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of IRD's Special Purpose Financial Statement. See Crowe Horwath's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, we oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with U.S. generally accepted government auditing standards.

October 2014

USAID's Afghanistan Vouchers for Increased Production in Agriculture Program: Audit of Costs Incurred by International Relief & Development, Inc.

SIGAR 15-7-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified 14 material weaknesses and significant deficiencies in internal controls and 12 instances of material noncompliance with the cooperative agreement terms. Crowe Horwath found that International Relief & Development, Inc. (IRD) was not able to provide sufficient documentation to support transactions and financial records for the Afghanistan Vouchers for Increased Production in Agriculture Program. For example, IRD could not provide adequate supporting documentation—for three armored vehicles—from which a determination regarding its compliance with the U.S. Agency for International Development's (USAID) nonexpendable property disposition requirements could be made. In addition, IRD's indirect costs charged to the award exceeded the approved amount by $929,103. Furthermore, IRD incorrectly calculated and recorded currency exchange transactions which resulted in an unreasonable cost passed on to the U.S. government. Lastly, IRD did not invest $11,657 in program income earned back into the program.

As result of these deficiencies and instances of noncompliance, Crowe Horwath identified $1,893,484 in total questioned costs, consisting of $294,513 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and $1,598,971 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Questioned Costs Total	Ineligible	Unsupported
Fringe Benefits and Allowance	$3,708	$3,708	$0
Equipment	$254,166	$0	$254,166
Other Direct Costs	$5,350	$0	$5,350
Contractual Costs	$689,500	$654,503	$34,997
Indirect Costs	$929,103	$929,103	$0
Fund Balance	$11,657	$11,657	$0
Total	**$1,893,484**	**$1,598,971**	**$294,513**

Crowe Horwath also determined that IRD held excessive advanced cash balances that resulted in $5,754 in interest lost by the U.S. government. Crowe Horwath reviewed prior audits of IRD, but determined that the findings were not pertinent to this audit.

Crowe Horwath issued a disclaimer of opinion on the Special Purpose Financial Statement. Specifically, Crowe Horwath was unable to verify the data present in the Statement and therefore was prevented from issuing an opinion because (1) IRD was not able to produce sufficient audit evidence to determine if revenues earned under the award, as reported on the Statement, were materially accurate and fully verifiable; and (2) certain subcontract and subgrantee transactions were recorded inconsistently in the financial records.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Mission Director for USAID/Afghanistan:

1. **Determine the allowability of and recover, as appropriate, $1,893,484 in questioned costs identified in the report.**
2. **Collect from IRD the $5,754 in interest payable to USAID.**
3. **Advise IRD to address the report's 14 internal control findings.**
4. **Advise IRD to address the report's 12 noncompliance findings.**

SIGAR | Office of the Special Inspector General for Afghanistan Reconstruction

October 7, 2014

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development

Mr. William Hammink
Mission Director for Afghanistan
U.S. Agency for International Development

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by International Relief & Development, Inc. (IRD) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Afghanistan Vouchers for Increased Production in Agriculture Program. The audit covered $502,999,986 in expenditures incurred from September 1, 2008, through April 22, 2013.[1] The contract required the audit to 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 Mission Director for USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, $1,893,484 in questioned costs identified in the report.
2. Collect from IRD the $5,754 in interest payable to USAID.
3. Advise IRD to address the report's 14 internal control findings.
4. Advise IRD to address the report's 12 noncompliance findings.

The results of Crowe Horwath's audit are further detailed in the attached report.

We reviewed Crowe Horwath's report and related documentation. Our review, as differentiated from an audit 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 IRD's Special Purpose Financial Statements. We also express no opinion on the effectiveness of IRD's internal control or compliance with the cooperative agreement, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-025)

[1] The program was funded by cooperative agreement number 306-DFD-A-00-08-00304-00. Implementation of the program was initially planned to conclude by August 31, 2009, but was extended through 24 modifications which increased the amount of Federal funds obligated from $33,212,124 to $469,701,416. This amount was supplemented with program receipts to reach total costs incurred of over $500 million.

Crowe Horwath®

International Relief and Development, Inc.

Special Purpose Financial Statement

Afghanistan Vouchers for Increased Production in Agriculture (AVIPA) Program

For the Period September 1, 2008, through April 22, 2013

(With Independent Auditor's Report Thereon)

Table of Contents

© Copyright 2014 Crowe Horwath LLP

Crowe Horwath LLP is an independent member of Crowe Horwath International, a Swiss verein. Each member firm of Crowe Horwath International is a separate and independent legal entity. Crowe Horwath LLP and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath International or any other member of Crowe Horwath International and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath International or any other member of Crowe Horwath International. Crowe Horwath International does not render any professional services and does not have an ownership or partnership interest in Crowe Horwath LLP. Crowe Horwath International and its other member firms are not responsible or liable for any acts or omissions of Crowe Horwath LLP and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath LLP.

Crowe Horwath LLP
Independent Member Crowe Horwath International
1325 G Street NW, Suite 500
Washington D.C. 20005-3136
Tel 202.624.5555
Fax 202.624.8858
www.crowehorwath.com

Transmittal Letter

July 28, 2014

To the Board of Directors and Management of International Relief and Development, Inc.
1621 North Kent Street, Suite 400
Arlington, Virginia 22209

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of International Relief and Development, Inc.'s ("IRD") cooperative agreement with the United States Agency for International Development ("USAID") funding the Afghanistan Vouchers for Increased Production in Agriculture ("AVIPA") Program.

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

When preparing our report, we considered comments, feedback, and interpretations of IRD, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases of the engagement. Management's final written responses have been incorporated into the final report and are followed by auditor's responses, which are intended to clarify factual or interpretive inconsistencies between the findings as written and management's responses.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of IRD's AVIPA program.

Sincerely,

Bert Nuehring, CPA, Partner
Crowe Horwath LLP

© Copyright 2014 Crowe Horwath LLP

Summary

Background

International Relief and Development, Inc. ("IRD") entered into a cooperative agreement with the United States Agency for International Development ("USAID") to provide accessible and affordable agricultural goods to farmers, contribute to community and economic development through cash-for-work programs, and provide for access to wheat and various other crops. The program, the Afghanistan Vouchers for Increased Production in Agriculture ("AVIPA"), was funded by cooperative agreement number 306-DFD-A-00-08-00304-00, which incorporated an initial Federal obligation of $33,212,124. Implementation of the program was initially planned to conclude by August 31, 2009. Through execution of twenty-four modifications to the cooperative agreement, the amount of Federal funds obligated was increased to $469,701,416, and the program completion date was extended to April 22, 2013. During this period, the scope of work was also expanded to incorporate stabilization efforts in various regions of Afghanistan and to incorporate agricultural mechanization efforts in addition to food security efforts. Over the course of the program, which spanned a period of September 1, 2008, through April 22, 2013 – inclusive of a pre-award period – IRD incurred a reported $469,628,890 in Federal costs.

IRD also obtained co-payments ("co-pays") from program beneficiaries for various farming inputs provided by IRD either directly or indirectly to beneficiaries. IRD reported $33,382,753 in co-pays as having been received. Of this amount, $33,371,096 in program costs was funded with co-pay receipts.

Throughout the program's period of performance IRD collaborated with numerous implementing partners, subgrantees, contractors, and USAID to execute upon the scope of work identified in the cooperative agreement and subsequent modifications. As reported in IRD's final report on the program, results (unaudited by Crowe) included, but were not limited to:

- 296,922 wheat seed voucher packages having been redeemed by farmers;
- Distribution of 258,560 packages to farmers as part of the seed distribution program;
- 208,472 individuals graduated from training funded by the program's stabilization component;
- 33,822 jobs were created through cash-for-work activities; and
- 658 small grants were disbursed to 422 cooperatives and associations including 60,300 farmers.

The program's period of performance has concluded. However, the award has not been formally closed pending finalization of the negotiated indirect cost rate agreement and submission of the final federal financial report.

Work Performed

Crowe Horwath LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of IRD's AVIPA program.

Objectives Defined by SIGAR

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

© Copyright 2014 Crowe Horwath LLP

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether IRD has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement.

Scope

The scope of the audit included the period September 1, 2008, through April 22, 2013, for the AVIPA program. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting; and
- Subrecipient Monitoring.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

© Copyright 2014 Crowe Horwath LLP

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by IRD. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between IRD and USAID and the Code of Federal Regulations ("CFR") – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, drawdowns of Federal funds made by IRD using the Payment Management System, co-pay deposits, procurements, property and equipment dispositions, subrecipients, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess IRD's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements ("NICRA") and associated restrictions appearing in the NICRA and the cooperative agreement, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both IRD and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. The AVIPA program was included within IRD's annual audits conducted in accordance with OMB Circular A-133 for the years ended December 31, 2008, December 31, 2009, December 31, 2010, December 31, 2011, and December 31, 2012. The program was also included within the USAID Office of the Inspector General's audit of USAID's management of the AVIPA program. A report dated April 20, 2010, was issued as a result of the audit.

Due to the location and nature of the project work and certain vendors and individuals who supported the program still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe issued a disclaimer of opinion on the Special Purpose Financial Statement. The basis for the disclaimer of opinion is addressed within Crowe's *Independent Auditor's Report on the Special Purpose Financial Statement.*

Fourteen findings were reported because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement; and/or (4) questioned costs resulted from identified instances of noncompliance. Other matters that did not meet the criteria were communicated verbally to IRD.

Crowe reported on both IRD's internal controls over financial reporting and IRD's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement. Six material weaknesses in internal control, eight significant deficiencies in internal control, and twelve

© Copyright 2014 Crowe Horwath LLP

instances of material noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of $1,893,484 in unique costs was questioned as presented in **TABLE A** contained herein; due to certain transactions being questioned in multiple findings, the unique costs field includes each transaction's value once to avoid double-counting costs.

Crowe also noted that, due to IRD's having drawn down more funds than required to meet immediate cash needs, the Government lost a calculated $2,912 in interest. In addition, IRD did not expend co-pay cash received from beneficiaries, which meets the regulatory definition of program income, prior to drawing down additional funds. In consideration of this matter, the amount of interest lost by the Government due to its having advanced more funds than necessary to IRD increased to a calculated $5,754. These matters are discussed in detail within findings 2014-03 and 2014-05. The interest amount is recommended for payment to the Government.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to IRD's financial performance under the cooperative agreement. Per communications with IRD and USAID, there were six audits conducted that included the AVIPA program within their respective audit scopes. The audits did not contain any findings that are direct and material to the Special Purpose Financial Statement.

This summary is intended to present an overview of the results of procedures completed for the purposes described herein and is not intended to be a representation of the audit's results in their entirety.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2014-01	Allowable Costs: Inadequate Supporting Documentation	$92,677	$92,677
2014-02	Reporting	$0	$92,677
2014-03	Cash Management: Written Procedures and Excess Cash Balances	$0	$92,677
2014-04	Revenue: Supporting Documentation and Cash Controls	$0	$92,677
2014-05	Program Income: Treatment, Balance, and Use	$11,657	$104,334
2014-06	Accuracy and Completeness of Financial Records and NICRA Application	$0	$104,334
2014-07	Procurement: Supporting Documentation and Procurement Population	$63,030	$109,684
2014-08	Subrecipient Monitoring	$0	$109,684
2014-09	Equipment Disposition	$196,486	$306,170
2014-10	Suspension and Debarment Procedures	$0	$306,170
2014-11	Budget Transfers and Indirect Costs	$929,103	$1,235,273
2014-12	NICRA: True-Up Adjustments	$3,708	$1,238,981
2014-13	Allowable Costs: Exchange Rate Application	$654,503	$1,893,484
2014-14	Property Records and Inventory	$0	$1,893,484
Total Unique Questioned Costs			**$1,893,484**

© Copyright 2014 Crowe Horwath LLP

Summary of Management Comments

Management agreed or partially agreed with findings 2014-01, 2014-02, 2014-03, 2014-04, 2014-05, 2014-06, 2014-07, 2014-08, 2014-09, 2014-10, 2014-12, and 2014-14. Management did not agree in whole with finding 2014-02 due to no annual report having been required for the year ended September 30, 2012, as the project was inactive from November 15, 2011, through October 23, 2012. Management agreed with the remaining elements of finding 2014-02. Similarly, management disagreed with the elements of findings 2014-03 and 2014-05 pertaining to calculated interest owed to the Government, which recommend payment of interest lost by the Government due to IRD's holding excess cash or drawing down funds in excess of immediate cash needs. IRD disagreed with finding 2014-11 due to the award's not yet being closed and IRD's intention to request approval to fund the indirect cost charges that exceeded the approved indirect cost budget at the time IRD submits a final federal financial report. Lastly, management disagreed with finding 2014-13 because IRD did not consider a foreign currency transaction to have occurred.

In those instances where IRD provided additional information and documentation or in which the auditor received additional sufficient appropriate audit evidence to modify or alter a finding between issuance of the draft report to management for comment and issuance of this final report, adjustments to the findings have been made.

References to Appendices

The auditor's reports are supplemented by five appendices. **Appendix A** presents a schedule calculating the $2,912 in interest income lost by the Government due to IRD's retention of excess cash as referenced in Finding 2014-03. **Appendix B** provides a schedule recalculating the amount payable to an IRD contractor after correcting for exchange rate differences as referenced in Finding 2014-13. **Appendix C** presents a schedule calculating the $5,754 in interest income lost by the Government due to IRD not having expended program income prior to drawing down additional Federal funds and retention of excess cash, as referenced in Finding 2014-05. **Appendix D** includes the Views of Responsible Officials, which are management's responses to the findings presented within the preliminary draft report. **Appendix E** includes the auditor's rebuttal issued in response to management's comments on the findings.

© Copyright 2014 Crowe Horwath LLP

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors and Management of International Relief and Development, Inc.
1621 North Kent Street, Suite 400
Arlington, Virginia 22209

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 were engaged to audit the Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period September 1, 2008, through April 22, 2013, with respect to the Afghanistan Vouchers for Increased Production in Agriculture ("AVIPA") Program funded by cooperative agreement number 306-DFD-A-00-08-00304-00.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix V of Solicitation ID05130083 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to determine if revenues earned under the award as reported on the Statement were materially accurate, and to fully quantify the impact of misclassified expenditure transactions on multiple accounts included on the Statement. IRD did not produce documentation from which the total amount of revenues earned and reported under the AVIPA program could be determined. In addition, certain subcontract and subgrantee transactions were recorded inconsistently in the financial records, and the extent of the inconsistencies was indeterminable. Based on the items noted, we could not form an opinion on the Special Purpose Financial Statement.

(Continued)

Disclaimer of Opinion on the Special Purpose Financial Statement

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Special Purpose Financial Statement.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The schedule was prepared by IRD in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and presents those expenditures as permitted under the terms of cooperative agreement number 306-DFD-A-00-08-00304-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated July 28, 2014, on our consideration of IRD's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 IRD's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

July 28, 2014
Washington, D.C.

International Relief and Development, Inc.
Special Purpose Financial Statement
DFD-A-00-08-00304-00
For the Period September 1, 2008, through April 22, 2013

	Budget Grand Total	Actual	Questioned Costs Ineligible	Questioned Costs Unsupported	Notes
Revenues					
USAID Letter of Credit	$ 469,701,416	$ 469,628,890			
Co-Payments from Beneficiaries	33,382,753	33,382,753			
Total Revenue	$ 503,084,169	$ 503,011,643			4
Costs Incurred					6
Personnel	$ 31,251,984	$ 30,512,209			
Fringe Benefits and Allowances	$ 20,758,292	24,470,506	$3,708		F
Travel, Transportation, and Per Diem	$ 10,715,625	3,723,299			
Equipment	$ 4,390,238	4,665,047		$254,166	A, C, D
Other Direct Costs	$ 139,251,624	26,437,648		$5,350	C, F
Contractual	$ 259,819,486	375,365,434	$654,503	$34,997	A, B, G
Indirect Costs	36,896,740	37,825,843	$929,103		E
Total Costs Incurred	$ 503,083,989	$ 502,999,986			
Balance		$ 11,657	$11,657		7, B

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement and were prepared by the recipient.

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under cooperative agreement number 306-DFD-A-00-08-00304-00 for the Afghanistan Vouchers for Increased Production in Agriculture (“AVIPA”) Program for the period September 1, 2008, through April 22, 2013. Because the Statement presents only a selected portion of the operations of International Relief and Development, Inc. (“IRD”), it is not intended to and does not present the financial position, changes in net assets, or cash flows of IRD. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Cooperative Agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

Costs incurred in the local Afghanistan currency (i.e., Afghanis) were converted to U.S. Dollars using the historical weighted average exchange rate obtained when converting U.S. Dollars to Afghanis.

Note 4. Revenues

Revenues on the Statement represent the amount of funds which IRD is entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement during the period of performance and co-pay cost share funds received from program beneficiaries. Co-pay cost share funds received totaled $33,382,752.80. The funds were paid by the recipients of AVIPA funded agriculture inputs as their share of the costs. The cost share funds received were used for the purposes of the AVIPA program as approved by USAID.

Note 5. Revenue Recognition

Funds drawn under the AVIPA letter of credit or funds received from AVIPA beneficiaries’ co-pay cost share are treated as deferred revenue upon receipt. Deferred revenue is recognized as revenue earned when costs are incurred, including applicable indirect costs.

Note 6. Costs Incurred by Budget Category

The budgeted costs contained in the Special Purpose Financial Statement reflect the budgetary values contained in Modification 24 to the Cooperative Agreement dated October 23, 2012.

(Continued)

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than $0 would reflect that revenues have been earned that exceed the costs incurred or charged to the award and an amount less than $0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. The Statement's $11,657 balance indicates that there is an unspent balance of co-pay cost share funds received from program beneficiaries.

Note 8. Currency

All amounts presented are shown in United States dollars.

Note 9. Program Status

The Cooperative Agreement expired for the second time on April 22, 2013. Submission of the final expenditure report is pending establishment of the final indirect cost rate and fringe benefit rate for IRD's Fiscal Year 2013.

Note 10. Pre-Award Period

The cooperative agreement identified an effective date of September 25, 2008. The award specified an allowable pre-award period beginning September 1, 2008. Therefore, the period covered by the Statement is September 1, 2008, through April 22, 2013, the end of the period of performance per Modification #24 to the cooperative agreement.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the April 22, 2013, period of performance. Management has performed their analysis through July 28, 2014.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement[1]

Note A. Allowable Costs: Inadequate Supporting Documentation

Finding 2014-01 identified $92,677 in questioned costs that resulted from a lack of supporting documentation for one transaction, unsigned timesheets supporting two security vendor invoices, and one transposition error on an invoice resulting in an overpayment.

Note B. Program Income: Treatment, Balance, and Use

Finding 2014-05 identified $11,657 in questioned costs that resulted from IRD's not reinvesting $11,657 in program income earned back into the program thus resulting in greater Federal funds having been drawn down and expended than necessary.

Note C. Procurement: Supporting Documentation and Procurement Population

Finding 2014-07 identified $63,030 in questioned costs that resulted from IRD's not providing adequate documentation from the procurement files to support the reasonableness of certain costs incurred. $57,680 of the $63,030 is also questioned in Finding 2014-01.

Note D. Equipment Disposition

Finding 2014-09 identified $196,486 in questioned costs that resulted from IRD's not providing adequate documentation from which a determination regarding IRD's compliance with USAID's nonexpendable property disposition requirements could be made.

Note E. Budget Transfers and Indirect Costs

IRD exceeded the indirect cost cap presented in the program budget per Modification #24 to the cooperative agreement by $929,103 while under-spending certain direct cost categories. $929,103 is questioned within finding 2014-11.

Note F. NICRA Application and Provisional-Final Adjustments

As noted in Finding 2014-12, IRD did not conduct a true-up of its fringe benefit costs for fiscal year 2012 following finalization of the fringe benefit rates appearing in the NICRA in October 2013. $3,708 is questioned with regard to the true-up amounts.

Note G. Allowable Costs: Exchange Rate Conversion

Finding 2014-13 identified $654,503 in questioned costs as a result of IRD's using an exchange rate that exceeded the current rate for the foreign currency translation.

[1] Notes to the 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 Statement.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management of International Relief and Development, Inc.
1621 North Kent Street, Suite 400
Arlington, Virginia 22209

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period September 1, 2008, through April 22, 2013, with respect to the Afghanistan Vouchers for Increased Production in Agriculture ("AVIPA") Program funded by cooperative agreement number DFD-A-00-08-00304-00. We have issued our report thereon dated July 28, 2014, within which we disclaimed an opinion.

Internal Control over Financial Reporting

IRD's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the cooperative agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period September 1, 2008, through April 22, 2013, we considered IRD's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of IRD's internal control. Accordingly, we do not express an opinion on the effectiveness of IRD's internal control.

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

(Continued)

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 Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2014-02, 2014-04, 2014-05, 2014-06, 2014-11, and 2014-14 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies noted in Findings 2014-01, 2014-03, 2014-07, 2014-08, 2014-09, 2014-10, 2014-12, and 2014-13 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We noted certain matters that we reported to IRD's management in a separate letter dated July 28, 2014.

International Relief and Development, Inc.'s Response to Findings

IRD's response was not subject 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Crowe Horwath LLP

Crowe Horwath LLP

July 28, 2014
Washington, D.C.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of International Relief and Development, Inc.
1621 North Kent Street, Suite 400
Arlington, Virginia 22209

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period September 1, 2008, through April 22, 2013, with respect to the Afghanistan Vouchers for Increased Production in Agriculture ("AVIPA") Program funded by cooperative agreement number DFD-A-00-08-00304-00. We have issued our report thereon dated July 28, 2014, within which we disclaimed an opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of International Relief and Development, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2014-01, 2014-02, 2014-03, 2014-04, 2014-05, 2014-06, 2014-07, 2014-09, 2014-11, 2014-12, 2014-13, and 2014-14 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we reported to IRD's management in a separate letter dated July 28, 2014.

International Relief and Development, Inc.'s Response to Findings

IRD's 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.

(Continued)

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

Crowe Horwath LLP

Crowe Horwath LLP

July 28, 2014
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2014-01: Allowable Costs: Inadequate Supporting Documentation

Significant Deficiency and Non-Compliance

Criteria: Per OMB Circular A-122, costs must meet the following general criteria to be allowable:

a. Be reasonable for the performance of the award and be allocable thereto under [the principles contained in OMB Circular A-122];
b. Conform to any limitations or exclusions set forth in [OMB Circular A-122] or in the award as to types of amount of cost items;
c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;
d. Be accorded consistent treatment;
e. Be determined in accordance with generally accepted accounting principles (GAAP);
f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period; and
g. Be adequately documented.

Section 10.2 of Subcontract No. AVIPA-C-02-2008 executed by and between IRD and Global Strategies Group states that “The Subcontractor should retain on file receipts for expenditures and copies of individuals’ timesheets for claimed labor costs and work rendered and accepted during the invoice billing period…Timesheets are to be submitted with each invoice in support of associated costs.” The subcontract also flows down the provisions of FAR 52.232-7 which states, “The Contractor shall substantiate vouchers by evidence of actual payment and by individual daily job timecards, or other substantiation approved by the Contracting Officer.”

Section 1.4 of the cooperative agreement asserts that prior approval of certain purchases is required consistent with the requirements of OMB Circular A-122. Per OMB Circular A-122, capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. The Circular defines “equipment” as “an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-profit organization for financial statement purposes, or $5,000.”

Condition: During review of documentation supporting a sample of 146 transactions, we identified one expenditure that was overpaid by $900. Invoice number 25 for Helmand Wal Barak Ltd included a numerical transposition error; the sum of the invoice components was $5,640 whereas the total line item and the amount paid was listed as $6,540. The invoice was reviewed by IRD as per the organization’s procedures; however, the error was not detected.

In addition, IRD utilized Global Strategies for security services. During review of two contractor invoices, three timesheets provided in support of the vendor’s labor charges were not signed by the contractor and, therefore, were considered to be inadequate to support work having been performed on the program. In addition, we noted following matter in the supporting documentation for Kandahar for the month ended September 30, 2010 (Invoice SI100443):

1. The timecard for Employee A with Employee Number “Nil” in the position of “Interpreter” indicated that he was present on days 1 – 13 of the month. The amount charged to AVIPA was $541.19 (13 days at $41.63 per day).
2. The timecard for Employee B with Employee Number “Nil” in the position of “Static Guard” indicated that he was present on days 1 – 14 of the month. The amount charged to AVIPA was $196.90 (10 days at $19.69 per day).
3. Employee A’s name and Employee Number is the same as Employee B’s name and Employee Number, and the days worked overlap by all except one day.

(Continued)

Furthermore, the auditee indicated that it is common practice for supervisors to approve employees' time worked during periods when the supervisor is on leave or otherwise not working. Therefore, the supervisor approvals are not considered to be sufficient evidence in the absence of employee certifications as well. In consideration of the aforementioned matters, we could not conclude that the time worked by Employee A was not double-counted or that the days charged were worked. The corresponding costs are in question.

Lastly, IRD was unable to locate the supporting documentation for one equipment transaction.

The following table summarizes the total costs in question due to inadequate supporting documentation:

Transaction Detail Narrative	Exception Noted	Amount in Question
HLD3318 Helmand Wal Barak Ltd.	Invoice #25's total amount was entered as $6,540 rather than the accurate sum of $5,640 resulting in an overpayment.	$900
Security labor AVIPA Sep	The interpreter did not sign the timesheet. See invoice SI100443.	$738
Security t/m AVIPA Mar	One timesheet for the project manager was unsigned by the employee. One timesheet for the project manager was unsigned by the supervisor. One timesheet for the Chief of Staff was unsigned by the supervisor. See invoice SI110171.	$33,359
UV0810/002 V000 – Faisal Zabih	The purchase request, vendor invoice, and payment support were not provided.	$57,680
TOTAL		**$92,677**

Questioned costs: $92,677

Effect: The Government was overcharged for one purchase, and one equipment purchase may be considered unreasonable or unnecessary upon review by the funding agency. Regarding security charges and lack of support for one equipment item, the Government may have funded work that was not performed and goods that were not received or used for the purposes of the AVIPA program.

Cause: The internal controls that IRD implemented to ensure that vendor errors in billing and timesheet approvals are detected and corrected were ineffective. It is unclear why the supporting documentation for the equipment purchase and USAID's prior written approval could not be located within the archived records.

Recommendation: We recommend that IRD take the following actions: 1) remit $900 to the Government due to the numerical transposition error; 2) locate alternative evidence to support that the Global Strategies interpreter and project manager worked the time that was invoiced to IRD or otherwise refund the Government the amount of $34,097; 3) locate supporting documentation for the Faisal Zabih purchase and evidence of USAID's prior written approval or otherwise return the corresponding $57,680; and 4) Request and obtain additional supporting documentation from Global Strategies to substantiate that work was performed by the employees identified on invoice SI100443.

(Continued)

<u>Finding 2014-02: Reporting: Incomplete Financial Reports and Evidence of Review and Approval</u>

Material Weakness and Non-Compliance

Criteria: IRD established a procedure requiring that the Chief of Party to review and approve programmatic reports.

Per Title 22, Part 226.21(b) of the Code of Federal Regulations requires recipients' financial management systems to provide for accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in 22 CFR Part 226.52, *Financial Reporting.*

Condition: IRD first journalized co-pay amounts as of November 31, 2009. However, amounts for co-pay were not reported on the AVIPA federal financial reports until December 31, 2010. At the prior quarter end, September 30, 2010, IRD financial records indicated a total of $7,678,261 of co-pay had been received. Therefore, a minimum of four incomplete quarterly financial reports were submitted before a quarterly financial report included any program income. Due to program income having been recorded in the entity's financial records at the time of deposits rather than at the time the revenue was earned, it could not be determined if there were more than four financial reports that were misstated.

The preliminary final financial report dated July 18, 2013, reported $33,382,573 in program income, which agrees to IRD's deposit records. Therefore, the omission was subsequently corrected.

In addition, IRD did not produce documentation demonstrating that two of the seven sampled reports were reviewed by the Chief of Party (programmatic reports). The following reports were included within the reporting sample:

Report Title	Reporting Period	Report Type
Quarterly Performance Report	January 1 – March 31, 2010	Programmatic
Final Project Report	Full Project Period	Programmatic

Questioned costs: None

Effect: USAID may not have been provided with the information necessary for the funding agency to monitor the program's financial and programmatic performance. In the absence of report reviews, errors and omissions may be undetected and uncorrected.

Cause: Per inquiry with IRD, the auditee was uncertain why the program income was not reported prior to the report for the quarter ended December 31, 2010. IRD did not retain documented evidence of report reviews.

Recommendation: We recommend that IRD 1) develop a tool to ensure that each required element of financial reports is addressed prior to submission of reports to USAID; and 2) modify reporting procedures to require the documented review and approval of reports and retention of approval documentation.

(Continued)

<u>Finding 2014-03: Cash Management: Written Procedures and Excess Cash Balances</u>

Significant Deficiency and Non-Compliance

Criteria: Per Section 1.3 of the cooperative agreement, payment shall be made to IRD under the Letter of Credit advance payment method and in accordance with the provisions of 22 CFR Part 226.22 and 22 CFR Part 226.52.

Pursuant to 22 CFR Part 226.21(b)(5), recipients' financial management systems shall provide for "written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient."

Regarding cash advances, 22 CFR Part 226.22(k) states, "Recipients shall maintain advances of Federal funds in interest bearing accounts..."

Section 2.5.1(B)(1) of the Finance Manual specifies that the Senior Accountant for Grants and Contracts Accounting receives fund requests from the field.

22 CFR Part 226.53(b), *Retention and access requirements for records,* states, "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID."

Condition: IRD maintained both a Finance Manual that included cash management procedures as well as a second, stand-alone Letter of Credit Advance Policy. Per review of the written procedures and discussion with IRD, funds were not held in interest-bearing accounts at any point during the period of performance. Further, prior to the Letter of Credit Advance Policy's effective date (June 2010), a procedure was not in place that addressed the requirement for prompt disbursement of Federal funds. Thus, the written procedures were considered to be inadequate for the initial two years of the program.

Twenty unique drawdowns were selected for review and control testing. Of the twenty drawdowns tested, documentation of the field office's funding request and the subsequent approval by headquarters was unavailable for sixteen selections. The documentation, which consisted of working papers that supported the final drawdown amounts, was destroyed rather than having been archived and stored with other program records. In the absence of the documentation, one cannot determine if the procedures designed by IRD were implemented appropriately.

During an analysis of the full population of drawdowns, we noted that IRD held excess cash in seven months; the excess cash balances ranged from $665,253 to $8,355,913.

Using the U.S. Treasury Department's daily interest rates for the periods in question, we calculated interest lost by the Government as a result of the excess cash to be $2,912, net of the $250 that IRD is eligible to retain for administrative costs. A schedule showing the calculation of the lost interest amount is presented in **Appendix A** to this report.

Questioned costs: None. However, $2,912 in imputed interest was calculated as having been lost by the Government.

Effect: The Government lost a calculated $2,912 in interest due to funds exceeding immediate cash needs having been retained by IRD.

(Continued)

Cause: IRD considered it to be impractical to expend the full amount of funds within 30 days of receipt considering the local environment in Afghanistan. In the instances where disbursement of the funds within 30 days was not practical, however, IRD did not adjust its subsequent draw requests to accommodate for the remaining funds thus resulting in excess cash.

IRD considered the advance payment requirements to apply to the entity overall and cash balances by program/Payment Management System sub-account not to factor into the spending decisions.

Per IRD, the organization did not reach a conclusion regarding how to treat and report the co-pays (i.e., as cost share or program income) until later in the program, so the accounting changed over time and resulted in inconsistent reporting. IRD was uncertain why it continuously reported co-pays as program income. With regard to destroyed records, IRD indicated that the records were inadvertently destroyed at management's direction due to IRD's understanding that working papers did not need to be retained.

Recommendation: We recommend that IRD remit the $2,912 in lost interest to the Government and begin depositing Federal funds received in advance into interest-bearing accounts.

We recommend that IRD provide written instruction to individuals who have the authority to destroy records, including supporting documents, reminding them of the records retention requirements. We further recommend that IRD incorporate a process that requires an additional level of review and concurrence prior to any records being destroyed to mitigate the risk of incorrect or inappropriate documents being discarded.

(Continued)

Finding 2014-04: Revenue: Supporting Documentation and Cash Controls

Material Weakness and Non-Compliance

Criteria: Title 22, Part 226.21, *Standards for financial management systems,* requires recipients' financial management systems to provide for the following items (not exhaustive):

- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program;
- Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to all Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest;
- Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes; and
- Accounting records, including cost accounting records that are supported by source documentation.

Per Volume 3, Chapter 2 of the IRD Finance Manual, "…IRD, as an organization, accounts for its transactions annually on the accrual basis, its Field Offices are to record their receipts and expenditures on the cash basis."

Condition: IRD reported $503,011,643 in revenues, inclusive of Federal drawdowns and co-pay receipts. During our review of documentation supporting revenue, the following matters were identified:

1. **Revenue Recognition:** IRD recorded co-pay receipts as deferred revenue at the time of deposit versus when funds were received or earned as required by the cash and accrual basis of accounting, respectively. Due to deposits occurring sporadically rather than on a daily basis or at a fixed interval, the timing of the entries is in question. Due to documentation being unavailable to show the specific dates that the co-pay funds included in each deposit were received, the extent of the timing differences could not be identified. We noted that IRD indicated, within modification #13 dated February 2011, that $17 million in co-pay funds had been received. The schedule provided by IRD showing all co-pay deposit amounts and accounting entry dates - inclusive of offsets - reflected $10.431 million as being deposited prior to February 2011.

The cause of the entry date differences could not be determined; however, due to the total amount of co-pays having been recorded by IRD by the end of the audit period and the SPFS reflecting the full period, the timing differences do not have an identified impact on the Statement values.

2. **Completeness of Reported Revenue:** IRD reported $33,382,573 in co-pay funds received. Documentation supporting the deposit amounts and amounts recognized as revenue was available. However, IRD was unable to provide a reconciliation between a) vouchers provided to farmers, b) vouchers redeemed and ultimately, and c) co-pay funds received to identify whether all co-pay monies collected by IRD and/or implementing partners were received and deposited. The co-pay amounts also varied over time and by location/good, so a reliable estimate of expected co-pay receipts for all vouchers could not be generated.

In addition, per discussion with IRD, the auditee deposited co-pay monies into the same bank accounts as Federal funds, which prevented the identification and determination of whether all funds deposited were ultimately recorded in the accounting records.

Questioned costs: None

Effect: The accuracy and completeness of the co-pay amounts reported by IRD could not be validated.

(Continued)

Cause: The aforementioned issues resulted from the following matters:

1. IRD did not have a requirement for daily deposits or reconciliations of the periodic deposits to underlying detail of cash receipts incorporated within the IRD Operations Manual – Field Offices Finance and Accounting.

2. IRD considered frequent trips to the bank to be a security/safety risk.

3. The quantity of vouchers was too large to feasibly track each voucher issued, and IRD indicated that the vouchers did not have stand-alone cash value. Therefore, the vouchers were not tracked at the level of detail needed to estimate total revenue.

Recommendation: We recommend that IRD develop and implement procedures that require 1) a reconciliation to be conducted of program bank deposits to amounts logged in cash/safe records daily and that requires daily or weekly deposits to prevent delays in deposits of cash.

We further recommend that IRD conduct an analysis to determine the quantity of vouchers issued and quantity received and to calculate an estimate of anticipated cash receipts such that IRD may support the completeness of the reported co-pay receipts and revenues earned.

(Continued)

Finding 2014-05: Program Income: Treatment, Balance, and Use

Material Weakness and Non-Compliance

Criteria: Per Section 1.8 of the cooperative agreement and 22 CFR Part 226.24(b)(1), program income is additive to the USAID and other contributions, and shall be used to further eligible project or program objectives.

Title 22, Part 226.22(b)(2) requires that cash advances be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash needs of the recipient organization.

Per 22 CFR Part 226.2, program income is defined as follows:

> *Program income* means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award (see exclusions in §§ 226.24 (e) and (h)). Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in USAID regulations or the terms and conditions of the award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on any of them.

Section 2.5 of IRD's Finance Manual indicates that cash receipts will be posted to the Cash Receipts Journal on a daily basis.

Condition: IRD received co-payments from beneficiaries of the AVIPA program in exchange for goods and services provided by IRD and/or its implementing partners. The co-payments were earned as a direct result of the Federally-funded program and reflected fees for goods and services. Therefore, the co-pay receipts meet the definition of "program income" as defined in Federal regulation.

IRD reported the co-pay receipts on federal financial reports as program income and recorded certain co-payment and voucher receipts within the program income account on the ledger; however, IRD represented that it concluded that the funds should have been classified as cost share. IRD submitted a letter to the agreement officer dated November 3, 2009, requesting USAID's concurrence that the co-pays are not subject to Subpart E of 22 CFR Part 226, *Additional Provisions for Awards to Commercial Organizations.* Due to IRD's being a non-profit organization rather than a commercial entity and considering IRD's having handled receipt and management of co-pay monies, per discussion of the program structure and overview with IRD's staff, the conclusion that co-pays should be treated as cost share only was not considered to be valid for purposes of Federal compliance. Further, per IRD, USAID did not and has not responded to the request for concurrence.

During our audit of IRD's procedures, controls, and compliance, we noted the following:

1. **Excess Federal funds drawn down:** IRD did not reduce the amounts drawn down for the AVIPA award in response to co-pays received/program income earned. Co-pay/program income funds were required to be used to further eligible program objectives and, therefore, were to be treated in a manner similar to Federal funds. Thus, IRD was required to adjust its draw down amounts to reflect cash available from program income earned. Due to IRD's not having managed draw downs in this manner, excess cash was held ranging from $102,484 to $13,094,856. The excess cash balances resulted in a calculated $5,754 in interest lost by the Government due to funds having been advanced to IRD prior to the auditee's program needs. See **Appendix C** to this report for the calculation of interest lost by the Government.

2. **Unexpended Program Income:** IRD's financial records and the Special Purpose Financial Statement indicate that the company received $33,382,753 in co-payments and funded $33,371,096 in program transactions with the funds. $11,657, therefore, was not reinvested into the program.

(Continued)

Questioned costs: $11,657, the amount of Federal funds received that would not have been required had the co-pay funds been reinvested into the program. An additional $5,754 in interest was lost by the Government.

Effect: The total amount of co-pay receipts could not be validated. Further, IRD obtained and retained greater Federal funds than that to which the organization was entitled to receive at certain points in time. The result is that the Government lost $5,753 in interest that could have been earned on the advanced funds.

Cause: Although IRD reported the funds as program income to USAID, IRD asserts that the funds should be considered cost share monies rather than program income. In the absence of a response from USAID to IRD's letter requesting agreement with the cost share interpretation, IRD assumed that USAID agreed with its position.

IRD did not implement procedures to track the co-pay receipts in relation to vouchers that were distributed and/or redeemed by specific farmers and organizations throughout the course of the program.

IRD interprets the cash management regulations to apply to the entity overall rather than to funds advanced to an entity for the program referenced in the Payment Management System.

Recommendation: We recommend that IRD take the following actions:

1. Remit $5,754 in interest to the Government or document the reasoning for why the funds should not be considered program income under the regulations applicable to non-profit organizations and obtain a waiver of the interest owed to the Government;

2. IRD should return $11,657 to the Government representing the Federal funds that were not required due to certain co-pay funds not having been expended on program activities; and

3. Conduct an analysis to support the completeness of the co-pay receipts amount reported, and submit the analysis to USAID. If the analysis indicates that additional revenue was earned, IRD should 1) calculate the amount of Federal funds that were overdrawn due to program income funds not having been expended prior to additional Federal funds being drawndown; 2) calculate the interest lost by the Government as a result of the Federal funds having been overdrawn; and 3) remit the interest due to the Government.

(Continued)

Finding 2014-06: Accuracy and Completeness of Financial Records

Material Weakness and Non-Compliance

Criteria: Section 6.4.6 of IRD's Financial Manual states that the Director of Field Accounting "is responsible for handling cost accounting input from field offices and entering this information on the Cost Point Deltek system (when the full system is in place, the field offices for large project will enter the data directly into Cost Point). The Director must ensure that:

A. Cost data is consistent with the IRD Accounting Structure.
B. Data for direct and indirect costs is reported separately.
C. Costs are properly assigned by project, and by general ledger account.
D. Non-allowable costs are recorded to non-allowable accounts."

Per Section 2.5.2(D) of the *IRD Operations Manual – Field Offices Finance and Accounting,* the Finance Manager is responsible for ensuring that all financial transactions are classified, recorded and summarized properly.

22 CFR Part 226.2 defines a "subaward" as "an award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible subrecipient or by a subrecipient to a lower tier subrecipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services nor does it include any form of assistance which is excluded from the definition of 'award' in this section."

The Section continues to define "subrecipient" as "any person or government (including cooperating country government) department, agency, establishment, or for profit or non-profit organization that receives a USAID subaward, as defined in 22 CFR 226.2."

Condition: During our review of the transaction detail for Federal and Co-Pay charges and comparisons to the subrecipient population and audit reports provided by IRD, we identified certain transactions that were misclassified and/or treated inconsistently within the financial records. Matters noted included:

1. In-kind equipment items transferred to other parties were periodically recorded within the subgrant accounts;

2. The population of subrecipients provided by IRD included six organizations with a combined total subgrant value of $5,718,138. However, $23,275,070 was recorded to the domestic and foreign subgrant accounts producing an unreconciled variance of $17,556,932;

3. IRD's vendor, Durukhshan Agricultural & Social Association Ltd ("DASA"), had entries recorded to both the domestic and foreign subgrant accounts as well as to the domestic subcontract account although the entity did not receive a financial assistance award and is not classified as a subrecipient;

4. The Coordination of Humanitarian Assistance, CARE International, and Danish Committee for Aid to Afghan Refugees were identified as subrecipients, but had a series of transactions recorded to both the domestic subcontract and foreign subcontract accounts; and

5. IRD's A-133 audit reports included $211,699,450 in total subrecipient expenditures for fiscal years 2008 through 2011 under the AVIPA program. The subrecipient population provided by IRD following the Director of Grants and Contracts Accounting's review totaled $5,718,138 while the total subgrant expenditures per the expenditure support is $17,556,932. The differences are unreconciled.

(Continued)

In addition, IRD identified certain items recorded within the equipment categories that may have pertained to supplies due to equipment entries having been made in batches yet containing no individual items valued greater than $5,000. Thus, IRD could not reconcile the transactions recorded to the equipment account to the inventory documents provided.

A series of transactions within the transaction detail also did not have adequate memo entries or excluded the vendor, contractor, or subrecipient names. Therefore, one cannot determine through review of the ledgers what the total extent of the misclassifications is and what adjustments are necessary to correct for the misclassifications by account.

Questioned costs: None.

Effect: IRD may have mischarged the Government for indirect costs due to the misclassifications included within the transaction records.

Cause: Employees inputting the transactions into the financial system miscoded transactions, and management did not detect the errors during the review and approval processes. Per discussion with IRD, field accountants periodically encounter language barriers due to similarity of terms (e.g., subcontract versus subgrant), which resulted in some errors. It is unclear why the managerial reviews did not detect and correct the errors or what has driven the differences between the subrecipient populations provided by management and those in other reports.

Recommendation: We recommend that IRD:

1. Conduct a review of all transactions charged to cost categories that were not excluded from the NICRA application and identify any necessary reclassifications;

2. Incorporate each of the changes into a comprehensive listing of adjustments containing any resulting ineligible overhead charges;

3. Submit the listing of discrepancies to USAID and remit any resultant ineligible overhead charges; and

4. Develop, document, and implement a monitoring process by which transactions are periodically reviewed to test the effectiveness of the field’s managerial review of transaction entries.

We further recommend that IRD modify its finance manual for field office staff and develop a training document to assist field office staff in understanding the differences between subgrants, subcontracts, and other similarly named account types.

(Continued)

Finding 2014-07: Procurement: Supporting Documentation and Procurement Population

Significant Deficiency and Non-Compliance

Criteria: Pursuant to the provisions of Title 22, Parts 226.43, 226.45, and 226.46, IRD is required to:

- Conduct procurement procedures in a manner that provides, to the maximum extent practical, open and free competition, and to make awards to the bidder or offeror whose bid or offer is most advantageous to IRD, price quality and other factors considered
- Conduct a cost or price analysis for every procurement action and document the analysis; and
- For purchases in excess of the small purchase threshold, maintain procurement records and files that include documentation showing a) the basis for contractor selection; b) justification for lack of competition when competitive bids or offers are not obtained; and c) the basis for award cost or price.

Title 22, Part 226.21, *Standards for financial management systems,* requires recipients' financial management systems to provide for the following items (not exhaustive):

- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program;
- Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to all Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest;
- Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes; and
- Accounting records, including cost accounting records that are supported by source documentation.

Per 22 CFR Part 226.2, obligations are defined as "the amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period.

IRD's Finance Manual required written bids for purchases exceeding $25,000. The 2011 Procurement Manual restated the requirement to state that three written bids are required for procurements of items and services over $3,000.

Per 22 CFR Part 226.53(b), "Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID."

Condition: IRD was unable to produce a procurement population consisting of all obligations that IRD entered into with Federal funds; the population would include all purchase orders, contracts, and subaward agreements that were executed.

In the absence of a complete procurement population, a sample of 62 unique procurements was selected for audit using the transaction detail. During our review of documentation provided by management to support the procurement of the associated goods and services, we noted the following matters:

1. IRD could not produce documentation showing that bids or quotes were obtained for six procurements that exceeded IRD's small purchase threshold;

2. Documentation was unavailable to demonstrate the cost and price analyses were conducted for five procurements; and

3. No documentation was available to support the procurement of one transaction.

As a result, one cannot determine if IRD implemented the procedures required by the Government to help ensure that costs incurred are reasonable.

In those instances where IRD could produce neither the cost-price analysis, nor the evidence of competitive procedures, there was inadequate support to demonstrate that the costs incurred were reasonable. Accordingly, the associated costs are questioned. The following table summarizes the exceptions by transaction and the questioned costs. Note that, in some instances, multiple transactions may relate to a single procurement action. In those cases, each transaction description will be listed on a single row with the applicable vendor.

Vendor	Transaction Description Per Financial Records	Description of Error/Issue	Transaction Amount	Amount in Question
Khepal Construction Company	HLD544 Khepal Const company-V1	Competitive bid copies were not provided.	$141,984	$0
SkyLink Aviation, Inc.	Foreign Subcontracts OVER $25K	Competitive bid copies were not provided.	$322,200	$0
Sayara Media	SV1103/009 Sayara Media Commun	Competitive bid copies were not provided.	$71,244	$0
Obaid Zada LTD	KDR2543 Obaid Zada LTD.Co	Competitive bid copies were not provided.	$81,019	$0
Lex Inn LLC	KV1106/002 LEX INN LLC -	Neither the cost-price analysis nor the competitive bid evidence was available.	$5,350	$5,350
Ziba Helmand	HLD1697 ZHCC-V45	A copy of the documented cost-price analysis was not produced.	$11,895	$0
Faisal Zabih	UV0810/002 V000 - Faisal Zabih	No documentation was provided for this transaction.	$57,680	$57,680
EAM Inc. / Mosley & Associates	Audit svcs AVIPA 50% dep	A copy of the documented cost-price analysis was not produced.	$38,325	$0
Totals			**$729,697**	**$63,030**

Questioned costs: $63,030

Effect: The Government may have been overcharged for services rendered and funded by the AVIPA program. In addition, the absence of a complete procurement population increases the risk that controls may be circumvented and go undetected by management.

Cause: IRD did not consider it necessary to maintain a listing of all completed procurement actions. Further, due to the transaction detail not always containing the name of the vendor and good or service purchased, IRD was unable to generate a listing of all procurements/obligations using the ledger. It is unclear why the cost-price analyses and competitive bid documents were not retained as part of the procurement files.

(Continued)

Recommendation: With regard to the errors resulting in questioned costs, we recommend that IRD conduct a market price analysis or execute a similar procedure to document the reasonableness of the costs incurred and provide the results of the assessment, including supporting working papers, to USAID for review. If support for cost reasonableness is unable to be assembled, then IRD should remit the $63,030 to the Government.

Regarding the procurement files that did not include a cost-price analysis or copies of competitive bids, we recommend that IRD draft and distribute a memorandum to procurement officials responsible for file contents that communicates the procurement file content requirements and records retention requirements applicable to Federally-funded programs.

Regarding the population of procurements, we recommend that IRD proceed with implementation of the procurement module of its financial system and ensure that a procurement population may be produced on a per award basis. Alternatively, should IRD elect not to implement the procurement module, then IRD should establish and document a procedure for the development and maintenance of a procurement listing that includes the full procurement population for a given program. Further, IRD should modify its procurement policy to require a periodic review of this item by appropriate supervisory staff for accuracy and completeness during its internal monitoring process.

(Continued)

Finding 2014-08: Subrecipient Monitoring

Significant Deficiency

Criteria: Volume 3, Section 7.5.2 of IRD's Finance Manual requires that the Program Officer perform periodic on-site monitoring of subrecipient activities.

Per ADS Chapter 591, IRD, as the prime recipient of USAID funding, must ensure that foreign nonprofit subrecipients adhere to the annual audit requirement outlined in ADS Chapter 591, Paragraph 591.3.2.1. Paragraph 591.3.2.1 states, "Foreign nonprofit organizations, host governments, and subrecipients that expend $300,000 or more in USAID awards (i.e., organizations that receive USAID funds either directly or through a prime contractor or recipient) during their fiscal year, must have an annual audit conducted of those funds in accordance with the *Guidelines for Financial Audits Contracted by Foreign Recipients.*

Further, ADS Chapter 591 states, "Subrecipients must submit copies of their audits to the prime recipient for the auditor's review as part of the prime's annual audit. If the auditor determines that the subrecipient is not performing audits or that the audits are deficient or defective, the auditor must include a recommendation in the prime's audit report to have the subrecipient's audits performed or the deficient or defective issues corrected."

Condition: We selected four of six subrecipients for testing to determine 1) if IRD implemented monitoring procedures as required in the entity's procedures and 2) if the subrecipients were being audited as required by applicable regulations. IRD did not produce documentation to demonstrate that the on-site monitoring procedures were conducted during the course of the program for the four subrecipients. IRD was able to produce alternative documentation (i.e., evidence of IRD's review of monthly invoices and programmatic reports) to indicate that desk reviews were conducted for three of the four subrecipients in the sample. IRD did not, however, provide evidence of a review of monthly invoices - including a review of a programmatic report by the Chief of Party - for the April 2009 invoice from the Danish Committee for Aid to Afghan Refugees.

In addition, IRD did not request, receive, or review a copy of CARE International in Afghanistan's audit for fiscal year 2009 during the program's period of performance. CARE expended greater than $300,000 in AVIPA funds during fiscal year 2009 thereby triggering the audit requirement. IRD communicated with CARE during the course of this audit and obtained a written representation from CARE stating that there were no findings applicable to the AVIPA program in CARE's 2009 audit report. IRD also indicated that it reviewed the audit report online to identify any findings pertaining to Afghanistan that may have impacted the AVIPA program.

Questioned costs: None

Effect: There is an increased likelihood that subrecipients' noncompliance with provisions applicable to the AVIPA program may have been undetected.

Cause: Per discussion with IRD, the recipient did not retain evidence of on-site monitoring because 1) IRD works closely with subrecipients in the field; and 2) the Chief of Party's review and approval of an invoice served as evidence that work performed under the applicable scope of work had been completed.

IRD rated CARE Afghanistan as 'outstanding' on the Contractor Performance Evaluation and, therefore, did not feel that an audit was necessary.

Recommendation: We recommend that IRD obtain a copy of CARE's audit report and accompanying management letter and document the review of the report and letter for any findings or matters of noncompliance that may have an impact on the AVIPA program's financial position. If any such matters are noted, then IRD should adjust the program's financial records, as appropriate.

We further recommend that IRD issue a written instruction to management within its field office instructing the field office to follow the documented monitoring procedure and ensure that on-site monitoring activities are occurring as required in IRD's Finance Manual.

(Continued)

Lastly, we recommend that IRD issue a written reminder to its field offices communicating the requirement that audits be conducted and expressly indicating that contractor performance reviews may not serve as a substitute for the audits required under Federal guidelines.

(Continued)

Finding 2014-09: Equipment Disposition

Significant Deficiency and Non-Compliance

Criteria: Pursuant to 22 CFR Part 226.34(g) pertaining to the disposition of USAID-financed equipment and property, the recipient shall request disposition instructions from the Agreement Officer. The recipient shall follow the disposition instructions or, if disposition instructions are not issued within 120 calendar days after the request, then the recipient shall sell the equipment and reimburse USAID an amount to be calculated in the manner prescribed in Section 226.34. The amount of compensation payable to USAID shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the equipment.

Condition: IRD identified 65 nonexpendable property items valued at $5,000 or more within its close-out plan dated March 12, 2011, submitted to USAID for review. IRD indicated that no nonexpendable property items were still in-use for program purposes and all such items had been transferred or disposed of. To test IRD's compliance with USAID's disposition instructions and applicable regulations, we selected a sample of nonexpendable equipment and property and requested to view:

1. A copy of USAID's disposition instructions; and

2. Evidence of the receiving organization's receipt.

IRD did not provide evidence of receipt for eight items or a copy of the disposition instructions for nine items. In addition, the documentation provided for two other items did not tie to the information included in the close-out report. Therefore, we could not determine whether the nonexpendable equipment and property items were disposed of in a manner consistent with USAID's disposition instructions.

The total purchased cost associated with the items in question is $343,680, of which $196,480 is questioned. With regard to the vehicles that were selected for testing of compliance with disposition requirements, IRD represented that no vehicles were purchased with AVIPA program funds. Rather, IRD indicated that vehicles were transferred to IRD from other USAID implementing partners and documents and inventories referencing an IRD purchase cost was in error.[2] IRD was unable to locate documentation of the original transfers from the implementing partners to IRD. Per review of the financial records and documentation available for audit, no vehicle purchases were identified. Therefore, the amounts referenced for vehicles are not questioned within this report.

The following table summarizes the issues per item:

Item	Description	Description of Error/Issue	IRD Purchase Cost Per the Close-Out Plan	Questioned Cost Amount
VTC System	VTC-Microphone	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$6,499	$6,499
VTC System**	VTC Receiver	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$6,499	$0

[2] See Finding 2014-14 of this report for additional property record and inventory management matters unrelated to asset disposition.

(Continued)

Item	Description	Description of Error/Issue	IRD Purchase Cost Per the Close-Out Plan	Questioned Cost Amount
Generator	50 KVA Generator-FGW	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$28,400	$28,400
Vehicle*	Toyota Land Cruiser Soft Skin	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$24,644	$0
Vehicle*	Toyota Land Cruiser Armored	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$24,849	$0
Vehicle*	Toyota Land Cruiser Armored	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$24,849	$0
Vehicle*	Toyota Land Cruiser Armored	Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was not provided.	$66,353	$0
Connex	20 Feet	A copy of USAID's disposition instructions was not provided. Documentation showing that the organization identified by IRD as the recipient of the disposed item received it was also not provided.	$15,667	$15,667
Connex	20 Feet	A copy of USAID's disposition instructions was not provided.	$15,667	$15,667
Generator	110 KVA Perkins	A copy of USAID's disposition instructions was not provided.	$5,444	$5,444
Generator	50 KVA Generator-FGW	A copy of USAID's disposition instructions was not provided.	$12,778	$12,778
Generator	110 KVA-Olympian	A copy of USAID's disposition instructions was not provided.	$9,778	$9,778
Connex	20 Feet	A copy of USAID's disposition instructions was not provided.	$12,267	$12,267

(Continued)

Item	Description	Description of Error/Issue	IRD Purchase Cost Per the Close-Out Plan	Questioned Cost Amount
Connex	20 Feet	A copy of USAID's disposition instructions was not provided.	$12,267	$12,267
Connex	20 Feet	A copy of USAID's disposition instructions was not provided.	$12,267	$12,267
Connex	40 Feet	A copy of USAID's disposition instructions was not provided.	$12,267	$12,267
Generator	250 KVA-FGW	The USAID disposition instructions provided as support by IRD does not tie to the information included within the closeout report.	$24,785	$24,785
Generator	50 KVA Generator-FGW	The receipt record from the organization receiving the item does not tie to the information included within the closeout report.	$28,400	$28,400
TOTAL			**$343,680**	**$196,486**

* Items listed with an asterisk reflect items that IRD represented as not having been purchased for the AVIPA program, but rather that were transferred to IRD by another implementing partner.

** This item is excluded from the questioned cost calculation due to the item's cost being included as a component of the total VTC System, which is questioned in the first item.

Questioned costs: $196,486, which reflects the sum of the purchase cost for each of the items in question in the absence of supporting documentation demonstrating fair market value amounts for each item.

Effect: IRD may have disposed of the property in a manner inconsistent with USAID's instructions and not have remitted the necessary funds to the Government. Disposition of 18 of 25 items tested was inadequately supported and represented $343,680 of $456,817 tested. The total value of equipment and property used on the AVIPA program was $4,577,921, per review of the 2011 AVIPA inventory, inclusive of both nonexpendable and expendable property and equipment.

Cause: IRD lacks adequate internal controls to ensure that property and equipment records are retained and assets purchased for or transferred to IRD for use on the AVIPA project are appropriately monitoring and recorded in the records.

Recommendation: We recommend that IRD provide evidence of USAID's disposition instructions and evidence that the entity received the nine equipment and property items. In the event that IRD is not able to substantiate transfer of the equipment item consistent with USAID's instruction, IRD should provide the physical location of each item so that an inspection can take place. If the necessary supporting documentation cannot be provided, then IRD should calculate the market value of the nonexpendable property items as of the disposition date, submit the calculations to USAID for review and approval, and remit the total value of the items to the Government.

We further recommend that IRD develop and issue a written memorandum to its program staff and those charged with responsibility for records retention reinforcing the Federal requirements applicable to retention of records and supporting documentation. We further recommend that IRD develop and deliver a training to its program staff regarding the requirements and procedures pertaining to records retention.

(Continued)

Finding 2014-10: Suspension and Debarment Procedures

Significant Deficiency

Criteria: Section 4.3 of the IRD Procurement Policy states:

> 4.3 IRD will not make an award or permit an award at any tier to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal procurement activities. IRD will require all proposed contractors at any tier to certify whether they have been excluded from participation in Federal procurement activities. Before award, IRD will consult at the minimum the US Government Excluded Parties List at www.epls.gov , as well as other available resources in the country of performance as appropriate, and document the contract file that this list was consulted. Please see Appendix C for instruction on completing EPLS screening. It may also be necessary to review local host country "denied parties" listings or the "denied parties" listings of donor nations to ensure that IRD only contracts with appropriate sources.

Per 22 CFR Part 226.13, IRD is restricted from issuing contracts or subawards to certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Condition: IRD did not provide documentation showing that searches of the Excluded Parties List System ("EPLS") were conducted prior to IRD's contracting for or otherwise procuring goods and services from ten of 61 vendors. We conducted independent searches of the System for Award Management, which replaced the EPLS, and did not identify any vendors that were suspended or debarred. Therefore, no costs are questioned.

Questioned costs: None

Effect: The likelihood that IRD provided Federal funds to excluded parties is increased.

Cause: IRD was unable to locate documentation of EPLS searches for the corresponding transactions.

Recommendation: We recommend that IRD issue a memorandum to its procurement managers reinforcing the policy's requirement that suspension and debarment searches be conducted and evidence of the search be retained in the contract file. IRD should also develop and conduct training to its procurement managers regarding the procedures that should be implemented.

(Continued)

Finding 2014-11: Budget Transfers and Reporting of Indirect Costs

Material Weakness and Non-Compliance

Criteria: Section 1.4(b)(A) of the cooperative agreement provides the following guidelines pertaining to transfers of budgeted funds for indirect costs:

> Pursuant to 22 CFR 226.25(c)(5), the Recipient may transfer amounts budgeted for indirect costs to absorb increases in direct costs, but must comply with the requirement set forth in paragraph (b)(1) above to report the deviation in the budget plan. This approval does not authorize the Recipient to incur additional direct costs or undertake additional activities simply because of a reduction in indirect costs (e.g., where final indirect cost rates are lower than provisional rates used for budgeting purposes). If the Recipient transfers amounts budgeted for indirect costs to absorb increases in direct costs, the Recipient thereby waives any claim for additional funds to cover any subsequent inability by the Recipient to fully recover its actual allowable indirect costs. The transfer of amounts budgeted for direct costs to absorb increases in indirect costs must be approved by the Agreement Officer.

Condition: Modification #24 to the cooperative agreement realigned the program budget to provide for a total of $36,896,740 in indirect costs. Per IRD's financial records, $37,825,843 in indirect costs was charged to the award, which exceeded the approved indirect cost budget by $929,103. As a result, $929,103 in indirect costs funded by the Government and co-pay receipts were ineligible.

In addition, IRD's preliminary final financial report dated July 18, 2013, reported $36,482,370 in total indirect costs charged and represented that 100 percent of the amount was included as the Federal Share. Per IRD's financial records, $1,343,473 of the total $37,825,843 in indirect costs incurred as referenced above was funded by program income. Thus, the indirect costs reported are misstated by $1,343,473 – the amount of indirect costs funded with co-pay receipts, per IRD's financial records.

The following table summarizes the approved budgetary amounts and actual charges, per IRD's financial records:

Cost Type	Budget per Modification #24	Actual Costs Per the Special Purpose Financial Statement	Difference
Direct Costs	$466,187,249	$465,174,143	$1,013,105
Indirect Costs	$36,896,740	$37,825,843	($929,103)
Total	$503,083,989	$502,999,986	$84,002

Questioned costs: $929,103

Effect: $929,103 in indirect costs funded by the Government and co-pay receipts were ineligible for reimbursement. The Government may also have relied upon an incorrect final financial report for purposes of monitoring the program and understanding the cooperative agreement's financial position due to the error.

Cause: IRD indicated that the organization has adopted a practice by which a modification to the budget is requested in conjunction with submission of the final financial report. Therefore, IRD has not requested the revision to the program budget to support the amount of indirect costs charged to the award.

Recommendation: We recommend that IRD locate evidence of USAID's approval of the budget deviation during the program period and provide it as evidence of the increased indirect charges' eligibility for reimbursement or otherwise reimburse the Government for the $929,103 in indirect costs that exceeded the approved amount. We further recommend that IRD modify its financial reporting procedures to require that individuals reviewing financial reports agree the financial data elements reported to the supporting detail prior to submission of the reports.

(Continued)

Finding 2014-12: NICRA Adjustments

Significant Deficiency and Non-Compliance

Criteria: Section II of the NICRA presents general instruction, including, but not limited to, the following:

D. Provisional-Final Rates: The grantee must submit a proposal to establish a final indirect cost rate within nine months after its fiscal year end. Billings and charges to Federal awards must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

E.1. Indirect costs charged to Federal grants/contracts by means other than the rate(s) cited in the agreement should be adjusted to the applicable rate(s) cited herein which should be applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.

E.4. You are directed to promptly submit adjustment vouchers or final vouchers for all flexibly priced grants, contracts or other agreements. Audit adjustments should be clearly delineated so as to be readily identifiable for verification by this office. Care should be taken that amounts claimed do not exceed award limitations or indirect cost rate ceilings.

Condition: Following receipt of final indirect cost rates for fiscal year 2012, IRD did not process the financial adjustments to true-up charges based on provisional rates to align with the final rates. IRD charged $209,960 to the award for FY2012 fringe benefit costs using the 44.18 percent provisional rate. Utilizing the final rate of 43.40 percent, the amount that should have been charged was $206,252. Therefore, a true-up adjustment of $3,708 should have been processed.

Questioned costs: $3,708.

Effect: Due to the final fringe benefit rate for FY2012 being less than the provisional rate, the AVIPA program was overcharged.

Cause: IRD had not processed the true-up for FY2012 as the recipient was awaiting finalization of the FY2013 NICRA to process all adjustments and to submit a final financial report.

Recommendation: With regard to the excess indirect costs charged to the award resulting from IRD's not completing a true-up following receipt of final FY2012 indirect cost rates, we recommend that IRD remit $3,708 to the Government.

(Continued)

Finding 2014-13: Allowable Costs: Exchange Rate Application

Significant Deficiency and Non-Compliance

Criteria: Accounting Standards Codification 830 states that, "At the date a foreign currency transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction shall be measured initially in the functional currency of the recording entity by use of the exchange rate in effect at that date."

The Codification defines "transaction date" as "The date at which a transaction (for example, a sale or purchase or merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP). A long-term commitment may have more than one transaction date (for example, the due date of each progress payment under a construction contract is an anticipated transaction date)."

GAAP also states that foreign currency transactions arise when a reporting entity (i.e., IRD) performs certain actions including, but not limited to 1) buying or selling on credit goods or services whose prices are denominated in foreign currency; or 2) for other reasons, acquires or disposes of assets, or incurs or settles liabilities denominated in foreign currency.

Per OMB Circular A-122, costs must meet the following general criteria to be allowable:

a. Be reasonable for the performance of the award and be allocable thereto under [the principles contained in OMB Circular A-122];
b. Conform to any limitations or exclusions set forth in [OMB Circular A-122] or in the award as to types of amount of cost items;
c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;
d. Be accorded consistent treatment;
e. Be determined in accordance with generally accepted accounting principles (GAAP);
f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period; and
g. Be adequately documented.

Condition: IRD recorded a $12,780,032 payment offset entry (i.e., a reduction in the cash outlay amount due to DASA's retention of co-pay receipts) which contributed to the total amount of revenues earned. The offset calculation included a mathematical error. When converting the amount of 639,001,600 Afghanis to U.S. dollars for purposes of identifying the amount payable to the vendor, IRD calculated the amount as $12,803,829 using a 50:1 exchange rate. Due to the $12.8 million contributing to the final calculation of the amount payable to Durukhshan Agricultural & Social Association Ltd ("DASA"), the mathematical error impacted the final settlement calculation resulting in an undercharge to the Government of $23,797.

During our review of the supporting documentation, we noted that IRD's contract modification with DASA identified the revised payment and contract amounts as effective January 31, 2010. Under generally accepted accounting principles, the current exchange rate at the transaction date, January 21, 2010, should be used for conversions of foreign currency to U.S. dollars. IRD utilized the 50:1 exchange as noted in the contract modification. This method results in the use of an average rate from an incorrect relevant range/time period. Rather, the relevant date would be January 31, 2010, the effective date of the modification. On that date, the average ask price (price to buy or convert Afghanis to U.S. dollars as noted in IRD's support) was 47.48 Afghanis per U.S. dollar, per the OANDA Corporation's historical exchange rate records. The change between the 47.48 rate and the 50.00 rate was considered to be and to result in an unreasonable cost passed on to the Government.

(Continued)

Use of the correct rate would have resulted in an alternate final settlement amount payable to DASA and a different offset entry amount. Conversion of the 639,001,600 Afghanis at the 47.48 rate would have resulted in a revenue offset of $13,458,332 or $678,300 greater than the offset entry recorded. The originally recorded $12.780 million was included within the co-pay funds reinvested into the program; therefore, the $678,300 change would have resulted in an increase to the co-pay funds that should have been reinvested into the program.

The amount charged to the award for the transaction, per IRD's supporting documentation, was $400,544. Use of the 47.48 rate would have resulted in a final amount receivable from DASA of $253,959. Therefore, the Government was overcharged by $654,503 ($400,544 original outlay amount plus the overpayment of $253,959 equals the overcharge of $654,503).

See **Appendix B** to this report for a schedule presenting IRD's calculation to arrive at the $400,544 amount, the recalculation correcting for the mathematical error, and the recalculation to arrive at the $253,959 receivable amount.

Questioned costs: $654,503

Effect: The Government was overcharged as a result of IRD's incorporating a fixed exchange rate into the contract with DASA rather than using the current exchange rate consistent with accounting principles generally accepted in the United States. Further, the co-pay funds received were misstated due to an exchange rate error resulting in $678,300 in co-pays less than appropriate being reinvested into the program.

Cause: IRD considered the incorporation of the fixed exchange rate into the contract to be appropriate and utilized the median exchange rate from the period of the contract's original negotiation. In addition, IRD considered the contract language to constitute the governing guidance and did not consider the application of GAAP to impact allowability.

Recommendation: We recommend that IRD reimburse the Government for the $654,503.

Finding 2014-14: Property Records and Inventory

Material Weakness and Non-Compliance

Criteria: Pursuant to Title 22, Part 226.34(f)(3), "A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment."

22 CFR Part 226.34(f) requires that equipment records be maintained accurately and include the following information:

a. A description of the equipment;
b. Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number;
c. Source of the equipment, including the award number;
d. Whether title vests in the recipient, the Federal Government, or other specified entity;
e. Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost;
f. Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government);
g. Location and condition of the equipment and the date the information was reported;
h. Unit acquisition cost; and
i. Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates USAID for its share.

Condition: IRD's special purpose financial statement ("SPFS"), as supported by IRD's financial accounting records, included $4,665,048 in equipment charges, inclusive of both non-expendable and expendable property items. Upon review of IRD's "628 AVIPA Inventory listing 2011" file, we noted the following items:

1. The total amount of the equipment and property included in the AVIPA inventory was $4,577,921, which varied from the SPFS by an unreconciled amount of $87,127.
2. The inventory omitted the "Source" data element and disposition data required by Federal regulation.
3. IRD indicated that no vehicles were purchased using AVIPA project funds, but rather were transferred to IRD by other implementing partners. The same was communicated to USAID within the close-out plan dated March 12, 2011. The inventory, however, included 19 vehicles with reported "IRD Purchase Cost[s]" of $780,713. IRD's close-out plan submitted to USAID included a total of $451,425 associated with 18 vehicles. The variance of $329,288 is unreconciled.
4. During a comparison of the amounts referenced as the "IRD Purchase Cost" in the inventory to the amounts presented in the close-out plan submitted to USAID, the amounts for ten items did not agree and one item (an Olympian 50 KV generator located in the NAWA-FOB building in Helmand) was not located in the inventory file.

In addition, IRD did not produce a copy of the reconciliation of the inventory to the accounting records.

Questioned costs: None

Effect: One cannot determine whether the inventory submitted to USAID was accurate and whether or not the items noted by IRD as having been acquired and/or used for the AVIPA project were used for the intended purposes.

Cause: IRD could not locate the reconciliation of the inventory to the accounting records. IRD did not implement adequate reviews over AVIPA program inventories to ensure that inventories and supporting records were accurate and complete.

Recommendation: We recommend that IRD conduct a search of program records and locate the reconciliation of the AVIPA inventory to the accounting records. If IRD cannot locate the reconciliation, then we recommend that IRD complete a reconciliation and make the adjustments necessary to address reconciling differences. We further recommend that IRD modify its Property Management Guidelines to require a review of inventory records and a sign-off on the reconciliation by management showing that the review occurred.

SECTION 2: Summary Schedule of Prior Findings

Per discussion with International Relief and Development, Inc., and USAID, six audits had been conducted that included the AVIPA program within their audit scopes. Five of the reports were audits were IRD's Single Audits conducted in accordance with OMB Circular A-133 for fiscal years 2008 through 2012. None of the reports included findings pertaining to the AVIPA program and that are direct and material to the Special Purpose Financial Statement. Accordingly, there were no findings or recommendations required for review

An additional audit was performed of the AVIPA program by the USAID Regional Inspector General's Office. However, the audit was of USAID's implementation of the program rather than of IRD, and the recommendations were closed as of July 12, 2010, per the closure memoranda provided by USAID. Recommendations included within the report were directed to USAID's Mission. No further procedures were considered necessary.

APPENDIX A: Calculation of Interest Owed to the Government

The table presented on the following pages presents the calculation of the $2,912 in imputed interest resulting from IRD's retention of excess Federal cash referenced in Finding 2014-03.

Month	Cumulative Drawdowns	Cumulative Expenditures (Current Month Plus 30 Days)*	Excess Cash (Cumulative Expenditures less Cumulative Drawdowns)	Daily Interest Rate**	Days Outstanding	Interest ($)
Sep-08	$816,000	$ 5,749,182	$ -	-	-	$ -
Oct-08	$7,472,000	$10,387,155	$ -	-	-	$ -
Nov-08	$24,183,000	$29,418,319	$ -	-	-	$ -
Dec-08	$28,948,000	$30,033,348	$ -	-	-	$ -
Jan-09	$29,550,000	$30,907,773	$ -	-	-	$ -
Feb-09	$31,310,000	$39,234,776	$ -	-	-	$ -
Mar-09	$38,985,000	$41,031,355	$ -	-	-	$ -
Apr-09	$47,177,000	$43,597,438	$3,579,562	0.0000096	30	$1,031
May-09	$47,391,000	$45,781,127	$1,609,873	0.0000096	30	$464
Jun-09	$46,775,000	$47,735,039	$ -	-	-	$ -
Jul-09	$47,509,965	$50,618,145	$ -	-	-	$ -
Aug-09	$49,507,965	$52,575,448	$ -	-	-	$ -
Sep-09	$61,122,965	$53,860,072	$7,262,892	0.0000033	30	$719
Oct-09	$61,617,965	$72,268,965	$ -	0.0000035	-	$ -
Nov-09	$63,832,965	$87,811,918	$ -	0.0000035	-	$ -
Dec-09	$93,364,965	$96,263,910	$ -	0.0000035	-	$ -
Jan-10	$111,096,965	$102,741,051	$8,355,913	0.0000033	30	$827
Feb-10	$120,449,965	$124,576,953	$ -	-	-	$ -
Mar-10	$135,273,965	$147,524,124	$ -	-	-	$ -
Apr-10	$164,977,965	$169,654,125	$ -	-	-	$ -
May-10	$187,844,965	$197,641,898	$ -	-	-	$ -
Jun-10	$216,899,965	$219,860,262	$ -	-	-	$ -
Jul-10	$229,169,822	$254,142,560	$ -	-	-	$ -

Aug-10	$256,736,822	$272,535,150	$ -	-	-	$ -
Sep-10	$267,473,822	$300,363,646	$ -	-	-	$ -
Oct-10	$293,540,822	$319,612,412	$ -	-	-	$ -
Nov-10	$316,978,822	$370,741,851	$ -	-	-	$ -
Dec-10	$340,860,822	$387,970,056	$ -	-	-	$ -
Jan-11	$351,342,822	$394,429,665	$ -	-	-	$ -
Feb-11	$382,563,822	$413,596,202	$ -	-	-	$ -
Mar-11	$391,771,822	$430,112,874	$ -	-	-	$ -
Apr-11	$412,598,611	$436,672,044	$ -	-	-	$ -
May-11	$429,103,611	$441,745,102	$ -	-	-	$ -
Jun-11	$436,832,611	$448,095,787	$ -	-	-	$ -
Jul-11	$440,171,611	$455,458,477	$ -	-	-	$ -
Aug-11	$454,432,611	$462,358,693	$ -	-	-	$ -
Sep-11	$462,255,611	$463,750,302	$ -	-	-	$ -
Oct-11	$467,012,611	$466,090,946	$921,665	0.0000017	30	$47
Nov-11	$467,110,611	$467,274,680	$ -	-	-	$ -
Dec-11	$468,185,611	$467,403,306	$782,305	0.0000017	30	$40
Jan-12	$468,185,611	$467,520,358	$665,253	0.0000017	30	$34
Feb-12	$464,853,611	$466,614,198	$ -	-	-	$ -
Mar-12	$465,256,611	$466,726,088	$ -	-	-	$ -
Apr-12	$465,256,611	$466,845,364	$ -	-	-	$ -
May-12	$466,360,611	$467,451,734	$ -	-	-	$ -
Jun-12	$467,093,611	$467,278,206	$ -	-	-	$ -
Jul-12	$467,093,611	$467,389,773	$ -	-	-	$ -
Aug-12	$466,607,019	$467,944,378	$ -	-	-	$ -
Sep-12	$466,607,019	$468,315,128	$ -	-	-	$ -
Oct-12	$466,607,019	$469,317,044	$ -	-	-	$ -

Nov-12	$467,278,019	$469,426,095	$ -	-	-	$ -
Dec-12	$468,418,019	$469,669,403	$ -	-	-	$ -
Jan-13	$468,825,019	$469,816,409	$ -	-	-	$ -
Feb-13	$469,035,019	$469,923,947	$ -	-	-	$ -
Mar-13	$469,067,019	$469,716,278	$ -	-	-	$ -
Apr-13	$469,234,019	$469,716,288	$ -	-	-	$ -
May-13	$469,336,019	$470,022,278	$ -	-	-	$ -
Jun-13	$469,336,019	$469,620,521	$ -	-	-	$ -
Jul-13	$469,536,019	$469,627,429	$ -	-	-	$ -
Aug-13	$469,536,019	$469,627,429	$ -	-	-	$ -
Sep-13	$469,536,019	$469,627,429	$ -	-	-	$ -
Oct-13	$469,536,019	$469,629,649	$ -	-	-	$ -
Nov-13	$469,628,890	$469,629,649	$ -	-	-	$ -
Dec-13	$469,628,890	$ -	$ -	-	-	$ -
Total Interest						**$3,162**
Less: Interest Income Eligible for Retention						**($250)**
Imputed Interest						**$2,912**

** IRD does not have documentation of fringe benefit costs incurred on a monthly basis. Therefore, fringe benefit costs are distributed throughout the period.*

*** IRD did not maintain Federal drawdowns in interest-bearing accounts. Therefore, the U.S. Department of Treasury's daily interest rates were used for purposes of calculating interest that would have been earned on funds advanced to IRD.*

APPENDIX B: Recalculation of DASA Overpayment

The table presented on the following pages presents a recalculation of DASA's final payment after 1) correcting for the mathematical error made during the initial calculation and 2) using the exchange rate in effect at the time the contract with DASA was renegotiated. The schedule supports the $654,503 in questioned costs referenced in Finding 2014-13. Preceding the schedule is a page from IRD's supporting documentation showing the use of the conversion from Afghanis to U.S. dollars in calculation of payment due to the vendor.

AVIPA Program
DASA Contract Reconciliation
Contract #: AVIPA-DASA-II-2009

					Amount
Total Contract					$ 40,512,805.00
Less: Inv #1 through Inv #7					21,072,315.00
Sub-Total					19,440,490.00
Less: Amount Held for 696 Vouchers					72,972.00
Amount Due - Invoice #8 Submitted					19,367,518.00
Less: 2% Withholding Tax					-387,350.36
Sub-Total					18,980,167.64
Less: Co-Pays recevied by DASA					
Afs 639,001,600 at Afs 50.00 = US$1					-12,803,828.64
Amount Due after Co-Pay Reduction					6,176,339.00
Actual Payment - September 2010					4,569,738.51
Actual Payment - October 2010					1,273,225.09
Remaining Amount Due					333,375.40
Adjustments to Amount Due					
1 Takhar Province Modification					
Description	Vouchers	Unit Price	Total Adjustment		
Irrigated Package	-5,000	219.230603	-1,096,153.02		
Rainfed Package	5,000	145.688583	728,442.92		
					-367,710.10
2 Amount Withheld on Previous Payment (see above)					77,960.92
3 Reduced Co-Pay Amounts - Afs1,350 to Afs800 (see attachment)					
Badakhshan Province - 20,000 Vouchers					
Bamiyan Province - 20,000 Vocuhers					
Amount deducted by IRD			4,498,557.69		
Adjusted Amt to be Deducted			-4,133,173.08		
					365,384.61
4 Un-Redeemed Vouchers IRD owes DASA					
Ghor Province - AVIPA I			1,287.50		
Bamiyan Province - AVIPA II			246.15		
(see Attachment)					1,533.65
5 Settlement Adjustment offered by DASA					-10,000.48
Final Settlement					**$ 400,544.00**

	IRD Support	Auditor Recalculation to Correct Calculation Error	Auditor Recalculation to Use of Current Rate at Renegotiation
Total Contract	$40,512,805.00	$40,512,805.00	$40,512,805.00
Less: Inv #1 through #7	($21,072,315.00)	($21,072,315.00)	($21,072,315.00)
Sub-Total	$19,440,490.00	$19,440,490.00	$19,440,490.00
Less: Amount Held for 696 Vouchers	($72,972.00)	($72,972.00)	($72,972.00)
Amount Due - Invoice #8 Submitted	$19,367,518.00	$19,367,518.00	$19,367,518.00
Less: 2% Withholding Tax	($387,350.36)	($387,350.36)	($387,350.36)
Sub-Total	$18,980,167.64	$18,980,167.64	$18,980,167.64
Less: Co-Pays received by DASA	($12,803,828.64)	($12,780,032.00)	($13,458,331.93)
Amount Due after Co-Pay Reduction	$6,176,339.00	$6,200,135.64	$5,521,835.71
Actual Payment - September 2010	($4,569,738.51)	($4,569,738.51)	($4,569,738.51)
Actual Payment October 2010	($1,273,225.09)	($1,273,225.09)	($1,273,225.09)
Remaining Amount Due	$333,375.40	$357,172.04	$(321,127.89)
Adjustments to Amount Due			
Less: Takhar Province Modification	($367,710.10)	($367,710.10)	($367,710.10)
Add: Amount Withheld on Previous Payment	$77,960.92	$77,960.92	$77,960.92
Reduced Co-Pay Amounts	$365,384.61	$365,384.61	$365,384.61
Unredeemed Vouchers IRD Owes DASA	$1,533.65	$1,533.65	$1,533.65
Settlement Adjustment Offered by DASA	($10,000.48)	($10,000.48)	($10,000.48)
Final Settlement (Amount Payable to DASA):	**$400,544.00**	**$424,340.64**	**($253,959.29)**
Difference from IRD Support	**$ -**	**$23,796.64**	**($654,503.29)**
Interpretation of Difference from IRD Support		**Undercharge**	**Overcharge**

APPENDIX C: Calculation of Imputed Interest (Inclusive of Program Income)

The table presented on the following pages presents a calculation of interest lost by the Government due to IRD's retention of excess Federal cash and overdrawing of Federal funds due to program income not having been expended prior to additional draws occurring. The schedule supports the $5,754 in imputed interest referenced in Finding 2014-05.

Month	Cumulative Drawdowns and Co-Pays	Cumulative Expenditures (Inclusive of Co-Pay Expenditures)	Excess Cash (Cumulative Expenditures less Cumulative Drawdowns and Co-Pays)	Daily Interest Rate**	Days Outstanding	Interest ($)
Sep-08	$816,000	$5,749,182	$4,933,182	0	0	$ -
Oct-08	$7,472,000	$10,387,155	$2,915,155	0	0	$ -
Nov-08	$24,183,000	$29,418,319	$5,235,319	0	0	$ -
Dec-08	$28,948,000	$30,033,348	$1,085,348	0	0	$ -
Jan-09	$29,550,000	$30,907,773	$1,357,773	0	0	$ -
Feb-09	$31,310,000	$39,234,776	$7,924,776	0	0	$ -
Mar-09	$38,985,000	$41,031,355	$2,046,355	0	0	$ -
Apr-09	$47,177,000	$43,597,438	($3,579,562)	0.0000096	30	$1,031
May-09	$47,391,000	$45,781,127	($1,609,873)	0.0000096	30	$464
Jun-09	$46,775,000	$47,735,039	$960,039	0	0	$ -
Jul-09	$47,509,965	$50,618,145	$3,108,181	0	0	$ -
Aug-09	$49,507,965	$ 52,575,448	$3,067,484	0	0	$ -
Sep-09	$61,122,965	$53,860,072	($7,262,892)	0.0000033	30	$719
Oct-09	$61,617,965	$72,268,965	$10,651,000	0	0	$ -
Nov-09	$68,571,907	$87,811,918	$19,240,011	0	0	$ -
Dec-09	$98,103,907	$96,263,910	($1,839,997)	0.0000033	30	$182
Jan-10	$115,835,907	$102,741,051	($13,094,856)	0.0000033	30	$1,296
Feb-10	$125,188,907	$124,576,953	($611,954)	0.0000033	30	$61
Mar-10	$140,313,475	$147,524,124	$7,210,650	0	0	$ -
Apr-10	$170,643,991	$169,654,125	($989,865)	0.0000033	30	$98
May-10	$194,506,869	$197,641,898	$3,135,030	0	0	$ -

Jun-10	$223,656,456	$219,860,262	($3,796,194)	0.0000033	30	$376
Jul-10	$236,105,877	$254,142,560	$18,036,683	0	0	$ -
Aug-10	$263,693,278	$272,535,150	$8,841,872	0	0	$ -
Sep-10	$275,152,083	$300,363,646	$25,211,563	0	0	$ -
Oct-10	$302,213,881	$319,906,630	$17,692,749	0	0	$ -
Nov-10	$325,833,360	$371,292,845	$45,459,485	0	0	$ -
Dec-10	$350,063,312	$388,733,981	$38,670,669	0	0	$ -
Jan-11	$361,774,420	$398,882,127	$37,107,707	0	0	$ -
Feb-11	$393,354,673	$420,565,621	$27,210,948	0	0	$ -
Mar-11	$403,128,561	$438,179,911	$35,051,350	0	0	$ -
Apr-11	$428,684,850	$449,436,179	$20,751,328	0	0	$ -
May-11	$446,214,765	$458,894,691	$12,679,926	0	0	$ -
Jun-11	$457,105,609	$466,779,977	$9,674,368	0	0	$ -
Jul-11	$460,499,053	$474,142,667	$13,643,614	0	0	$ -
Aug-11	$474,760,053	$482,105,125	$7,345,072	0	0	$ -
Sep-11	$482,857,805	$489,453,600	$6,595,795	0	0	$ -
Oct-11	$487,615,152	$491,860,743	$4,245,591	0	0	$ -
Nov-11	$500,493,184	$496,756,799	($3,736,384)	0.0000017	30	$191
Dec-11	$501,568,184	$496,885,425	($4,682,758)	0.0000017	30	$239
Jan-12	$501,568,184	$497,002,477	($4,565,707)	0.0000017	30	$233
Feb-12	$498,236,184	$496,096,317	($2,139,867)	0.0000017	30	$109
Mar-12	$498,639,184	$496,208,207	($2,430,977)	0.0000017	30	$124
Apr-12	$498,639,184	$496,464,023	($2,175,161)	0.0000017	30	$111
May-12	$499,743,184	$497,070,393	($2,672,791)	0.0000017	30	$136

Jun-12	$500,476,184	$496,896,865	($3,579,319)	0.0000017	30	$183
Jul-12	$500,476,184	$497,008,431	($3,467,753)	0.0000017	30	$177
Aug-12	$499,989,592	$497,563,036	$(2,426,556)	0.0000017	30	$124
Sep-12	$499,989,592	$498,396,573	($1,593,020)	0.000002	30	$96
Oct-12	$499,989,592	$499,397,729	($591,863)	0.000002	30	$36
Nov-12	$500,660,592	$500,437,869	($222,723)	0.000002	30	$13
Dec-12	$501,800,592	$501,697,350	($103,242)	0.000002	30	$6
Jan-13	$502,207,592	$502,405,445	$197,853	0	0	$ -
Feb-13	$502,417,592	$502,575,194	$157,601	0	0	$ -
Mar-13	$502,449,592	$502,745,081	$295,489	0	0	$ -
Apr-13	$502,616,592	$502,807,333	$190,741	0	0	$ -
May-13	$502,718,592	$503,020,507	$301,915	0	0	$ -
Jun-13	$502,718,592	$502,990,858	$272,266	0	0	$ -
Jul-13	$502,918,592	$502,997,766	$79,174	0	0	$ -
Aug-13	$502,918,592	$502,997,766	$79,174	0	0	$ -
Sep-13	$502,918,592	$502,997,766	$79,174	0	0	$ -
Oct-13	$502,918,592	$502,999,986	$81,394	0	0	$ -
Nov-13	$503,011,463	$502,999,986	($11,477)	0.000002	30	$1
Dec-13	$503,011,463	$502,999,986	($11,477)	0.000002	150	$3
Total Interest:						**$6,004**
Less: Interest Eligible for Retention:						**($250)**
Total Imputed Interest Payable:						**$5,754**

APPENDIX D: Views of Responsible Officials

TRANSMITTED BY E-MAIL ONLY

July 28, 2014

Crowe Horwath, LLP
1325 G Street NW, Suite 500
Washington, DC 20005-3136

Ladies and Gentlemen,

RE: Draft Audit Report on Special Purpose Financial Statement - Afghanistan Vouchers of Increased Production in Agriculture (AVIPA) Program

The purpose of this letter is to provide International Relief and Development, Inc.'s comments on the findings and recommendations contained in the referenced draft audit report received on July 14, 2014. Each set of comments is identified by the Finding Number contained in the draft report.

Finding 2014-01:

IRD concurs with the recommendation as it relates to the $900 and $57,680. For the $900, there was a transposition error on the payment vouchers and the vendor was overpaid. The $57,680 was for two KVA 150 generators purchased at the beginning of the project in October 2008. IRD has been unable to locate the supporting documents in its files. We will continue to search our records for the supporting documents and provide them to USAID if we are able to locate them.

As for the $738 and $33,359, IRD's position is that the documentation provided to the auditor is adequate to support these costs paid to the security firm. In addition, IRD will request the security firm to provide any additional documentation it may have to support the questioned costs.

Finding 2014-02:

IRD would like to point out that there was not an Annual Report for the Year Ended September 30, 2012. The original AVIPA project ended on November 15, 2011 per Modification #23 dated August 17, 2011. Therefore, an annual report for the year ended September 30, 2012 was not required. AVIPA was reopened by USAID on October 23, 2012 per Modification #24.

Therefore, AVIPA was not active for the period November 15, 2011 until October 23, 2012. IRD requests that reference to the Annual Report for the year Ended September 30, 2012 be removed from the report.

Also, by the time the AVIPA Final Report was issued, the project was closed (not re-opened until October 2012) and the CoP was no longer employed by IRD. Therefore, it was impossible to have the report reviewed and approved by the CoP. The report was prepared under the direction of the IRD Headquarters Program Operations and was reviewed by several staff at IRD Headquarters. Therefore, given the timing of the final report, the requirement for CoP review and approval was no longer applicable.

Overall, IRD agrees with the recommendation. We will modify our standard operating procedure for recording and reporting of cost share and program income to make sure that it is reported in the period provided or earned. We will also establish procedures for documenting the review and approval of program reports and retention of the reviewed documentation.

Finding 2014-03:

IRD does not agree with the recommendation as it relates to the lost interest. IRD has been operating in Afghanistan since 2004. During that period we have never been able to open and operate interest bearing checking accounts. Based on our research, NGO's, as defined by Afghanistan Law, may open saving accounts. The terms and conditions vary by bank. There are fees assessed and limitations on number of draws from saving accounts. However, the Afghanistan tax law implications for any interest earned are unclear to IRD. Currently, USAID funds flowing into Afghanistan are tax exempt and IRD is registered in Afghanistan as a tax exempt International NGO. However, if we were to earn interest on savings accounts, then the earning may be subject to Afghanistan tax. Therefore, it is IRD's conclusion that given the fact that interest bearing checking accounts are not available and the cost/tax implications of saving accounts is unknown, that placing USG funds advanced to field offices in Afghanistan is not administratively feasible.

As for the destroyed records, IRD concurs with the recommendation and will revise it standard operating procedures for record retention to ensure adequate review and approval before any records are destroyed. It is important to note that, except for the portion of the records related to the payroll estimate, IRD could recreate the work papers supporting the drawdowns. For payroll, we could only provide the actual amount for the period, and not the estimate on which the drawdowns were made.

Finding 2014-04:

IRD agrees with the recommendation. The AVIPA project was unique for IRD in that there were significant receipts from beneficiary co-payments. IRD had not had a project prior to AVIPA or subsequent to AVIPA that requires a co-payment by the beneficiaries. Therefore, it is highly unlikely that there would ever be another IRD project with significant cash receipts. However, IRD will revise its standard operating procedure to require frequent deposits (daily or weekly depending on the security situation) and will write this requirement into the design of any programs that generate cash inflows like AVIPA.

IRD will undertake the recommended analysis if USAID determines that the analysis would be useful or is required. However, it may take a significant amount of time to conduct this analysis.

Finding 2014-05:

IRD does not agree with the recommendations. First, the auditor cites 22 CFR 226.22(g) as the requirement to disburse funds available from "program income" prior to requesting additional cash payments. However, 22 CFR 226.22(g) specifically states that "This paragraph is not applicable to such earnings which are generated as foreign currencies." Since the beneficiary copayments were received in Afghanistan Afghanis, 22 CFR 226.22(g) is not applicable.

Second, IRD considers the copayments received from the AVIPA beneficiaries as cost share and not program income. It is correct that IRD reported the Copayment as Program Income on the Quarterly Finance Report (SF-425), but this was a mistake. It should have been reported as cost share. IRD will correct the classification error when it submits the next preliminary final or final SF-425. Further, per Modification 5 to the Cooperative Agreement, the plan for the use of the copayments is stipulated. It is clear that the copayments were to be used for agreed upon purposes in consultation with USAID and MAIL. It was not to be used to pay expenses in lieu of drawing federal funds per the terms of the Cooperative Agreement (Section 3.3.1 of Revised Program Description- Pages 12 and 13).

Third, IRD paid the balance of the copayments on hand of $3,481,751.52 to USAID on May 17, 2012. USAID returned the funds to IRD on August 31, 2012 without explanation on what IRD should do with the funds. Subsequently, USAID and IRD agreed to Modification 24 to the Cooperative Agreement on October 23, 2012 which specified how IRD was to utilize the copayments and extended the expiration date of the cooperative Agreement to April 22, 2013. Clearly, if USAID considered these funds as program income to be utilized before spending federal funds, then it would not have refunded the money to IRD. Rather, it appears that USAID considered the funds a copayment/cost share to be utilized in consultation with the Afghanistan Government for AVIPA purposes.

Therefore, based on the above, (1) no interest is due the USG and (2) the balance of $11,657 is cost share and is not due to USAID. As for the third recommendation, IRD agrees to conduct an analysis of copayment receipts to confirm that we accounted for all receipts. However, the results of this analysis would not result in interest due the USG.

Finding 2014-06:

IRD agrees with the recommendations. We will undertake a review of the transactions and make the necessary adjustments which may have resulted in excess indirect charges or undercharging of indirect cost. Given the large number of transactions to be reviewed, the analysis will take some time to complete.

IRD will modify the standard operating procedures to include clear guidance to Headquarters and field staff for determining which accounts to debit for the various types of expenses. IRD Headquarters staff will also undertake periodic reviews of posting done in the field office to ensure compliance with the guidance.

Finding 2014-07:

IRD agrees with the recommendations related to questioned costs and cost-price analysis. It is important to note that the $57,680 questioned for vendor Faisal Zabih is the same $57,680 questioned in Finding 2014-01. Therefore, the additional questioned cost for this finding is $5,350 for legal services from Lex Inn LLC. IRD should not be asked to refund the amount twice.

While IRD appreciates the auditor's recommendation regarding the procurement population, we are not aware of any requirement in USAID Procurement standards (22 CFR 226.40-.49) which requires it to maintain a procurement population. Prior to the AVIPA audit, all past government auditors for USAID programs have relied upon IRD's expenditure data to develop their procurement selection. To our knowledge, using the expenditure records to select procurement transactions for testing has been adequate for audit purposes.

Finding 2014-08:

IRD agrees with the recommendations and will undertake the recommended actions.

Finding 2014-09:

IRD agrees with the recommendations and will undertake the recommended actions.

Finding 2014-10:

IRD agrees with the recommendation. The finding covers awards made prior to the initial AVIPA end date of November 15, 2011. Subsequent to that date, IRD has issued numerous reminders and instructions to all staff regarding the requirement for doing SAM searches. Following is a list of the organization wide notices that have been sent:

- IRD Compliance Matters Notice to All Staff Dated June 23, 2014
- IRD Compliance Matters Notice to All Staff Dated July 23, 2014
- IRD Compliance Matters Notice to All Staff Dated November 27, 2012
- IRD Compliance Matters Notice to All Staff Dated October 24, 2011

We will continue to remind staff of the requirement and include this as one of the items to be verified as part of our periodic compliance reviews.

Finding 2014-11:

IRD disagrees with the effect that indirect cost receipts were ineligible for reimbursement. Since the quarter ending 12/31/10, IRD reported only the value of indirect applied to the federal share of expenditures reported in section 11 of the SF425. Since the copay funds were not part of the federally funded value, the indirect expenses incurred therein were not included in section 11. IRD will contact the USAID OFM for clarity of preferred reporting methodology and will use the advised methodology as part of the preparation and submission of the final SF425.

IRD agrees with the cause as written. As it has been usual and customary as part of IRD's federal reporting procedure, variances between budgeted direct costs used for indirect purposes or vice versa – are requested at the time of submission of the final SF425, once all NICRA rates for program expenditure have been finalized. This does not preclude IRD from requesting budget modifications throughout the life of a project, as indicated by budget modifications made as part of this award.

IRD does not agree with the recommendation that IRD reimburse the Government for the reported $923,103 in indirect cost expenditure. IRD will submit a final SF425 once the NICRA has been negotiated for FY 2013, the last year in which expenses on this program were incurred, which will include full indirect cost recovery per those rates and will request USAID's approval of such at that time. IRD's financial procedures already include such review of expenditure reported against approved budgets, but will take note to continue such efforts.

Finding 2014-12:

The finding has two parts. The first part relates to $3,708 fringe cost adjustment for the true-up of the 2012 fringe based on the final negotiated rate and the second part relates to the application of the fringe rate to expatriate and third country national staff working in Afghanistan. IRD will submit an updated preliminary final SF-425 to account for this true-up.

As regards the finding related to the application of the fringe rate in expatriate and third country national (TCN) staff working in Afghanistan, IRD disagrees with the findings. IRD has twice confirmed with the USAID Washington Office of Acquisition and Assistance; Cost, Audit and Support Division; Overhead, Special Cost and Closeout Branch (OAA/CAS/OCC) which is the cognizant for the negotiation of IRD's Negotiated Indirect Cost Rate Agreement; that IRD's application of the fringe rate is correct. The first confirmation was provided to the auditor on June 9, 2014 where USAID confirmed that "Fringe: Per IRD's NICRA, the allocation base for fringe is total regular US labor costs. IRD's fringe pool includes fringe expenses for employees that were hired out of Headquarters. These employees receive all of the fringe benefit expenses and are paid out of Headquarters. Some of these employees work on awards that may be overseas. Even though these employees work overseas, they are headquarters personnel and receive the full fringe benefit rate."

The auditor did not accept the confirmation from OAA/CAS/OCC. Rather; the auditor relied upon contradicting information from the USAID Afghanistan Mission OAA. Therefore, IRD requested OAA/CAS/OCC confirmation regarding this matter a second time based on the Draft

Finding 2014-12. IRD provided USAID's response to the auditor on July 23, 2014. In the response USAID stated "The USAID Overhead, Special Cost & Closeout (OCC) Branch has determined that IRD has not changed their indirect rate methodology. The auditor's review of IRD's Cooperative Agreement with USAID should allow fringe on the Expat/TCN labor because the labor costs are included in the fringe allocation base. This methodology is in compliance with their NICRA."

Finally, on July 24, 2014, IRD provided the auditor with 2011 financial system reports requested by the auditor which confirmed that the expenses accounts for Ex-pat/TCN Labor, R&R and RRB were included in the domestic labor base used for determining the fringe rate.

Given that USAID OAA/CAS/OCC has twice confirmed that IRD's application of the fringe rate is correct and based on the support documentation provided to the auditor, this finding and questioned cost related to the application of fringe to IRD expatriate and TCNs staff working in Afghanistan should be removed from the report.

Finding 2014-13:

IRD disagrees with this finding. The Accounting Standard cited by the auditor is not applicable to the contract with Durukhshan Agricultural & Social Association, Ltd. (DASA) since IRD did not enter into a foreign currency transaction. The value of the co-payment was established at $36 per package by the contract effective October 15, 2009 for a total copayment offset of $13,191,120 for 366,420 packages. Modification 3 to the contract effective January 21, 2010 changes the make-up of the packages distributed by DASA to 342,258 packages with seed and fertilizer with a co-payment of $36 and 24,127 packages of fertilizer only with a co-pay of $20 per package. Therefore the total copayment offset was amended to $12,803,828.

When IRD paid the final settlement to DASA for this contract, the amount of $12,803,828 was offset against payments due to DASA. IRD did not enter into a foreign currency transaction with DASA. IRD did not exchange Afghanistan Afghanis for US Dollars. Therefore, the cited accounting standard does not apply.

IRD did not calculate dollar value of AFN 639,001,600 at 50:1 to calculate the amount payable to DASA. The offset of $12,803 828 was established by the contract. The calculation of the $12,780,032 was used only for the purpose of determining the amount to be charged to USAID based on actual AFN collected by DASA. IRD agrees that this was an error. The government should have been charged the full $12,803,828 withheld from the DASA payment and an additional $23,797 should have been credited to the co-payment account. IRD will make the adjustment to charge the USAID and credit the Co-payment Account if USAID agrees that we should do so.

Finding 2014-14:

IRD agrees with the recommendations and will undertake the recommended actions.

IRD would like to express its appreciation to SIGAR and Crowe Horwath, LLP for the professional manner and openness displayed during the audit.

Please let me know if you have questions or need additional clarification.

Sincerely,

Elmer S. Owens
Senior Advisor

APPENDIX E – Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of International Relief and Development, Inc. ("IRD" or the "auditee"), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

Finding 2014-02

Crowe agrees with IRD regarding the Annual Report's not having been required for the year ended September 30, 2012. The portion of the finding pertaining to the Annual Report has been removed.

Finding 2014-03

Crowe disagrees with management's conclusion that interest is not owed to the Government. IRD draws funds down from the Government and deposits them into an account in the United States prior to making disbursements in Afghanistan. Within the United States, interest-bearing accounts are available and the funds should have been deposited into interest-bearing accounts pursuant to 22 CFR Part 226.22(k).

In addition, the calculation of interest owed to the Government resulted from two matters: 1) IRD's not depositing funds into an interest-bearing account; and 2) IRD's holding excess cash. Irrespective of administrative complications that IRD may have encountered in the field, the auditee is still required to drawdown funds required for immediate cash needs and to make adjustments to drawdowns based on current cash on-hand that may impact the estimated cash needs. Due to IRD's not having disbursed Federal funds drawn from the Government within the requisite time period, the imputed interest remains payable.

Finding 2014-05

Crowe disagrees with IRD's conclusion that 1) interest is not due to the Government and 2) the balance of $11,657 is not due to the Government. Due to the co-pay funds meeting the definition of program income and – pursuant to 22 CFR Part 226.24 and Section 1.8 of the cooperative agreement requiring that program income be used to fund eligible program objectives and activities – the funds were available and intended to supplement Federal dollars. Therefore, the program income amounts on-hand should have been accounted for as available program cash when calculating the amount of funds for draw down on the Letter of Credit. Due to IRD's having retained the program income funds and not having disbursed them for eligible program activities prior to drawing down additional Federal dollars, IRD held greater program funds on-hand than were required or necessary to fund immediate cash needs, as mandated by 22 CFR Part 226.22.

Crowe agrees that the provision specified in 22 CFR Part 226.22(g) does not apply as the program income was earned and paid in a foreign currency; that criterion has been removed from the finding. In consideration of the matters referenced above, however, both the imputed interest and remaining co-pay balance amount are payable to the Government irrespective of the currency type.

Crowe agrees with IRD's statements indicating that the co-pay funds were to be used for AVIPA program purposes as directed by USAID and the Afghanistan Government. This interpretation is consistent with the program income regulations. Further, we note that USAID included the co-pay funds within a "program income" categorization within Modification #24 to the cooperative agreement and did not specify within the agreement or subsequent modifications that the funds were to be considered "cost share."

Ergo, the conclusion referenced in the finding that the co-pay funds meet the definition of program income remains unaltered.

Finding 2014-07

With regard to the procurement population matter, as referenced in the finding, 22 CFR Part 226.21 requires maintenance of financial records that contain information pertaining to all obligations and unobligated balances. An *obligation* is defined as "the amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period." Obligations result from IRD's procurement procedures, which culminate with orders being placed and grants and contracts being awarded. The lack of records presenting a listing of all such obligations is, therefore, out of alignment with the requirements of 22 CFR Part 226.21. Thus, the finding remains unaltered.

Crowe does not have the information necessary to comment regarding other auditors' procedures and reliance on the expenditure records to test procurement. Accordingly, we do not question or refute IRD's statement regarding other auditors' practices.

Finding 2014-11

IRD stated that the organization does not agree with the recommendation to reimburse the Government for the overcharge of indirect costs due to the NICRA for fiscal year 2013 not having been finalized. Crowe notes that there is a remaining approved expenditure balance of $84,003 (the difference between the budget of $503,083,989 in modification #24 and actual costs incurred per the Special Purpose Financial Statement). The balance would be insufficient to absorb the indirect cost overrun. Per Section II(D) of the NICRA, "If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs." Accordingly, the amount of the indirect cost overrun ($929,103) remains in question and the finding is unmodified.

Finding 2014-12

As indicated by IRD, conflicting guidance was received from the U.S. Agency for International Development, and the NICRA does not specify which accounts and cost elements are included within the base of application ("Total Regular US Labor Costs"). Through ongoing communication with USAID, USAID's specifying which accounts were tested and accepted during review of IRD's support for the NICRA, and review of the support referenced by USAID and IRD's underlying financial records, we were able to conduct procedures sufficient to clear the portion of the finding pertaining to the application of the NICRA.

The remainder of the finding, including the $3,708 in questioned costs due to IRD not having processed the fringe benefit adjustment, remains unmodified.

Finding 2014-13

Crowe disagrees with IRD's conclusion. Per the supporting documentation retained by IRD for the currency translations pertaining to DASA (See Appendix B of this report) and communications with IRD on May 29, 2014, and May 30, 2014, IRD utilized a foreign currency exchange rate extracted from OANDA to convert Afghanis to U.S. dollars. The underlying amount requiring conversion was denominated in Afghanis and converted to U.S. dollars for financial reporting purposes. This series of events aligns with the definition of a foreign currency transaction under accounting principles generally accepted in the United States of America. Accordingly, the finding is unmodified.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

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

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

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202