

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-15 Financial Audit

USAID's Initiative to Promote Afghan Civil Society Project:
Audit of Costs Incurred by Counterpart International, Inc.



JANUARY
2014



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 3, 2014

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

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

This letter transmits the results of our audit of costs incurred by Counterpart International, Inc. under a cooperative agreement with the U.S. Agency for International Development (USAID) for its Initiative to Promote Afghan Civil Society project.¹ The audit covered the period January 3, 2005, through September 30, 2010, and was performed by Mayer Hoffman McCann P.C. It covered \$27,179,524 in expenditures.

The purpose of USAID's Initiative to Promote Afghan Civil Society project was to assist in the "expansion of a vibrant Afghan civil society" through capacity building and technical assistance, implementation of an enabling non-governmental organization law, and the award and administration of small grants to civil society organizations. The goal of the original Initiative to Promote Afghan Civil Society program was to help Afghan citizens to participate in the political process effectively.

The objectives of this financial audit were to

- render an opinion on the fair presentation of Counterpart International, Inc.'s Fund Accountability Statement;²
- determine and report on whether Counterpart International, Inc. has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in Counterpart International, Inc.'s internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent public accounting firm and drawing from the results of its audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Mayer Hoffman McCann P.C.'s audit results and found them to be in accordance with generally accepted government auditing standards.

Mayer Hoffman McCann P.C. found that, except for the possible effects of questioned costs totaling \$815,317, the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the agreement. Mayer Hoffman McCann P.C. identified 25 prior audit findings with a potential material effect on the statement. Adequate corrective actions were taken on all of them. Mayer Hoffman McCann P.C. identified one material weakness in internal control and one instance of noncompliance. These

¹ Cooperative Agreement No. 306-A-00-05-00511-00.

² The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

findings prompted the auditors to question a total of \$815,317 in unsupported costs.³ The audit did not identify any ineligible costs.⁴ See table 1 below.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Salaries and fringe benefits	\$102,835		\$102,835
Sub awards	\$12,870		\$12,870
Grant Programs	\$220,570		\$220,570
Other Direct Costs	\$352,855		\$352,855
Indirect Costs	\$126,187		\$126,187
Totals	\$815,317	\$0	\$815,317

Given the results of the audit, SIGAR recommends that USAID:

1. Determine the allowability of and recover, as appropriate, \$815,317 in questioned costs identified in the report.
2. Advise Counterpart International, Inc to address the one internal control finding identified in the report.

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-020)

³ Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

⁴ Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by USAID to make a final determination regarding allowability.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

Table of Contents

	<u>Page</u>
Summary:	
Background	1
Objectives, Scope and Methodology	1
Summary of Results	4
Summary of Counterpart's Responses to Findings	6
Review of Prior Audit Recommendations	7
Independent Auditors' Report on Fund Accountability Statement	10
Fund Accountability Statement	12
Notes to Fund Accountability Statement	13
Independent Auditors' Report on Internal Control	18
Independent Auditors' Report on Compliance	20
Findings and Responses	21
Appendices:	
Appendix A: Response to Findings	26
Appendix B: Auditors' Rebuttal to Counterpart Response to the Findings	29
Appendix C: Review of Prior Findings and Recommendations	30

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Background

On January 3, 2005, the United States Agency for International (USAID) awarded Cooperative Agreement No. 306-A-00-05-00511-00 (Agreement) to Counterpart International, Inc. (Counterpart) in the amount of \$15,535,361. The initial period of performance was from January 3, 2005 through January 2, 2008. The Agreement was modified a total of 14 times, resulting in an extension of the period of performance through September 30, 2010, as well as an increase in the total budget amount to \$28,230,800. The final modification de-obligated a portion of the award and reduced the budget amount to \$27,361,200.

The purpose of the Agreement was to provide support for the Initiative to Promote Afghan Civil Society (I-PACS) and assist in the expansion of a vibrant Afghan civil society through capacity building and technical assistance, implementation of an enabling non-governmental organization law, and the award and administration of small grants to civil society organizations. A particular emphasis was placed on supporting women-focused civil society organizations. The goal of the I-PACS project was to increase the role and viability of Afghan civil society. Throughout the life of the project, Counterpart worked to implement the following four program components that were critical to the successful execution of the I-PACS project:

1. To ensure informed policy and just resource allocation decisions regarding civil society in Afghanistan;
2. To assist in the development and implementation of a comprehensive legal framework that strengthens the Non-Governmental Organization (NGO) sector;
3. To build the capacity of Civil Society Organizations (CSOs) to design implement, manage, monitor and evaluate their activities effectively; and
4. To provide funding to CSOs to implement developmental and advocacy projects.

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under the Agreement for the period January 3, 2005 through September 30, 2010.

Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

- *Internal Controls* – Evaluate and obtain a sufficient understanding of Counterpart’s internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Counterpart 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.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Counterpart has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Fund Accountability Statement.
- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Scope

The scope of this audit included all costs incurred during the period January 3, 2005 through September 30, 2010 under the Agreement. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in compliance with the negotiated indirect cost rate agreement.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on June 18, 2013. Participants included representatives of Counterpart, SIGAR and USAID.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Counterpart;
- Reviewed the Agreement and modifications;
- Reviewed regulations specific to USAID that are applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessed included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in number of transactions and more homogeneous in nature, we selected a statistical sample of the costs. The sample size tested was based upon a 95% confidence level with 5% maximum tolerable error rate. The sample was selected on a random basis. All other cost categories and/or accounts for which it was not appropriate to select a statistical sample, we selected the sample on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For related party transactions, we tested 100% of the transactions.
 - For high risk cost categories, we sampled at least 50% of the dollar value of the account.
 - For medium risk cost categories, we sampled at least 20% of the dollar value of the account.
 - For low risk cost categories, we sampled 10% of the dollar value of the account, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

For those cost categories and/or accounts that were selected on a statistical basis, we calculated an error rate and projected the results to the population. If the results for a judgmental sample indicated a material error rate, our audit team consulted with the Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of a judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the FAS

We reviewed Counterpart's internal controls related to the FAS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Agreement and modifications and documented all compliance requirements that could have a direct and material effect on the FAS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

Corrective Action on Prior Audit Recommendations

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the FAS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Fund Accountability Statement

In reviewing the FAS, we performed the following:

- Reconciled the costs on the FAS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable.

Exit Conference

An exit conference was held via conference call on September 16, 2013. Participants included Counterpart, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by Counterpart under the Agreement with USAID identified the following matters:

Auditor's Opinion on FAS

We issued a qualified opinion on the fairness of the presentation of the FAS based upon the identification of \$815,317 of questioned costs, which represents a material misstatement of the FAS. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement or applicable laws and regulations, including 22 CFR Part 226 and Office of Management and Budget (OMB) Circular A-122. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows.

Ineligible Costs

Our audit identified no costs that were deemed to be ineligible.

Unsupported Costs

Counterpart could not provide records, or provided insufficient records, to support transactions selected for testing in all cost categories, resulting in total questioned costs of \$815,317. See Finding 2013-1 in the Findings and Responses section of this report.

Internal Control Findings

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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 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. 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 FAS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

Material Weaknesses

The following material weakness was reported.

Finding Number	Internal Control Finding – Material Weaknesses	Auditee's Concurrence
2013-1	Counterpart could not provide records, or provided insufficient records, to support transactions selected for testing in all cost categories, resulting in questioned costs of \$815,317.	Partially Agree

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Significant Deficiencies

No significant deficiencies were reported.

Deficiencies

No deficiencies were reported.

Compliance Findings

As part of obtaining reasonable assurance about whether the FAS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of FAS. The results of our tests disclosed the following compliance finding as described in the Findings and Responses section of this report.

Finding Number	Compliance Finding	Auditee's Concurrence
2013-2	No documentation was provided to support that Counterpart conducted reviews of the Excluded Parties List System (EPLS) prior to entering into vendor contracts to verify that the vendors were not suspended, debarred or otherwise excluded from receiving Federal funds.	Agree

Summary of Counterpart's Responses to Findings

The following represents a summary of the responses provided by Counterpart to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

- (1) Finding 2013-1: Counterpart indicates that documentation supporting costs was damaged due to a catastrophic event that occurred on June 28, 2012. However, some of the documentation was able to be retrieved and was provided for review. Therefore, part of the total questioned costs in this report should be adequately supported. In addition, Counterpart is in the process of developing a disaster recovery plan.
- (2) Finding 2013-2: Counterpart indicates that starting in 2011, a system to determine vendors who were not been disbarred, suspended or other prohibited from receiving Federal funds was established.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Review of Prior Findings and Recommendations

We reviewed the corrective actions taken to address findings and recommendations from previous engagements or internal audits that could have a material effect on the FAS. There were two prior internal control reviews and three Single Audit Act reports with findings and recommendations that were included in the scope of our audit. These engagements identified 25 findings with a potential material effect on the FAS. Based upon our review, adequate corrective action was taken on all recommendations. The following represents a summary of the conditions noted for each of the audits. The details related to each finding reviewed and the adequacy of the corrective actions implemented can be found in Appendix C to this report.

Single Audit Act Reports

Counterpart provided six Single Audit Act Reports for the years ended September 30, 2005 through September 30, 2010. Within these reports, six findings were noted that could have a material effect on the FAS. The conditions noted included:

- For the year ended September 30, 2007, a number of general ledger asset accounts had not been reconciled.
- For the year ended September 30, 2009, Counterpart did not identify Federal in-kind contributions from the U.S. Department of State, as well as a federal loan from the Overseas Private Investment Corporation (OPIC), on its Schedule of Expenditures of Federal Awards (SEFA).
- For the year ended September 30, 2010, four findings were noted:
 - In-kind inventory was not properly recorded in the financial statements.
 - Audit schedules including the SEFA, accounts receivable, deferred revenue roll forward and inventory listings were not prepared by Counterpart.
 - The Single Audit Act Report and Data Collection Form were not submitted within the required timeframe to the Federal Clearinghouse.
 - Counterpart fell short on its matching requirement per the Cooperative Agreement for the I-PACS program by the end of the grant period in the amount of \$635,000.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Counterpart Internal Audit Review of I-PACS

Counterpart performed an internal audit review of I-PACS in June 2008. The internal audit review identified 9 findings. The conditions noted included:

1. Cash on hand, U.S. Dollars and/or Afghanis (AFS), kept in a safe exceeded the ceiling of \$10,000 or AFS equivalent. Additionally, cash transferred from the bank either by the Accountant or Finance Officer is performed by using the office vehicle. Security measures, such as employing security guards, do not exist.
2. Pre-numbered receipts were not used for any cash received in the office.
3. Transaction approval levels as detailed in the Finance Policies and Procedures Manual are not followed.
4. The Finance Officer is responsible for payroll. However, the Admin Officer calculates the final pay for an employee that has been terminated, which is not part of the job responsibilities of that position.
5. The majority of field personnel (24 out of 39) are paid in cash and not processed through a bank. Salaries greater than \$500 are to be processed through the bank.
6. A Goods Received Note or Delivery Note is not prepared at the time of receipt of goods from an external source.
7. An issuance note was not used for the issuance of assets or equipment. Beginning in June 2008, an Inventory Control Form was used in place of the issuance note, but only for information technology equipment.
8. A list of the top vendors is not maintained by the Admin Department for regular procurements as recommended by the Finance Policies and Procedures Manual.
9. Vehicle and Generator Logs are maintained but fuel consumption of a vehicle is not calculated on the face of log books.

Counterpart also performed an internal audit review of I-PACS' project office operations during a field visit in May 2009. The internal audit review identified 10 findings. The conditions noted included:

1. A surprise cash count needs to be conducted at least once a month by an independent person outside of the Finance Office (the Chief of Party (CoP) or the Deputy Chief of Party DCoP).
2. The official Cash Receipts Form, which is included as an Exhibit in the Finance Policies and

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

For the Period January 3, 2005 through September 30, 2010

SUMMARY

Procedures Manual, needs to be printed and issued by the Petty Cash Custodian when receiving cash refunds from employees.

3. Timesheets and leave forms need to be reviewed and attached to the monthly payroll register.
4. Travel authorizations need to be issued for all official trips outside of the employee's duty station for administrative approval and to clarify the traveler's per diem allowance and/or other entitlements, if any.
5. A leave slip is needed for all absences taken by an employee and is to be approved by the employee's supervisor. The approved leave slip must be attached to the timesheet, which is attached to, or referenced to, the payroll register.
6. The cost of insurance needs to be charged to the proper account.
7. Proof of Headquarters' approval of procurements in the amount of \$10,000 and greater needs to be attached to the procurement document and to the payment voucher.
8. The amount of \$2,510.99, which was spent on a farewell party in honor of the former CoP, is reimbursed to the I-PACS project out of Negotiated Indirect Cost Rate Agreement (NICRA) funds.
9. A Bill for Collections in the amount of \$834 was issued to the former CoP, representing a refund of an erroneous payment made to the former CoP.
10. The fixed assets register needs to be updated prior to the end of each fiscal year.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

INDEPENDENT AUDITORS' REPORT ON FUND ACCOUNTABILITY STATEMENT

We have audited the Fund Accountability Statement of Counterpart International, Inc. (Counterpart) for Cooperative Agreement Number 306-A-00-05-00511-00 (Agreement) with the United States Agency for International Development (USAID) for the period January 3, 2005 through September 30, 2010. The Fund Accountability Statement is the responsibility of Counterpart's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit of the Fund Accountability Statement in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Fund Accountability Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We identified several transactions totaling \$815,317 that were questionable based upon our review of the underlying support for the specified transactions. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

In our opinion, except for the possible effects of the matter described in the preceding paragraph and the ultimate determination and resolution of the identified questioned costs, the Fund Accountability Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and items and technical assistance directly procured by USAID for the indicated period in accordance with the terms of the Agreement and in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 2, 2013 on our consideration of Counterpart's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*

Board of Directors
Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

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

A handwritten signature in blue ink, appearing to read "Mayer Hoffman". The signature is written in a cursive style and is centered on the page.

Irvine, California
December 2, 2013

Counterpart International, Inc.

Financial Audit of Costs Incurred under
Cooperative Agreement No. 306-A-00-05-00511-00

Fund Accountability Statement

For the Period January 3, 2005 through September 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
306-A-00-05-00511-00	\$ 27,361,200	\$ 27,336,201	\$ -	\$ -	\$ -	(3)
Total revenues	<u>27,361,200</u>	<u>27,336,201</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Salaries and fringe benefits	5,923,461	5,900,208	-	102,835	102,835	(4)
Subawards	1,606,855	1,519,306	-	12,870	12,870	(5)
Grant programs	9,792,583	9,677,523	-	220,570	220,570	(6)
Other direct costs and travel	6,705,887	6,705,888	-	352,855	352,855	(7)
Indirect costs	<u>3,332,414</u>	<u>3,376,599</u>	<u>-</u>	<u>126,187</u>	<u>126,187</u>	(8)
Total costs incurred	<u>27,361,200</u>	<u>27,179,524</u>	<u>-</u>	<u>815,317</u>	<u>815,317</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 156,677</u>	<u>\$ -</u>	<u>\$ (815,317)</u>	<u>\$ (815,317)</u>	(9)

See Notes to Fund Accountability Statement

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Notes to Fund Accountability Statement

For the Period January 3, 2005 through September 30, 2010

(1) Status and Operation

Counterpart International, Inc. (Counterpart) is a non-profit international development organization whose mission is to empower vulnerable people to implement innovative and enduring solutions to social, economic and environmental challenges. Established in 1965, Counterpart has forged partnerships in over 65 countries and its staff currently operates in over 20 countries.

On January 3, 2005, the United States Agency for International (USAID) awarded Cooperative Agreement No. 306-A-00-05-00511-00 (Agreement) to Counterpart International, Inc. (Counterpart) in the amount of \$15,535,361, of which \$1,000,000 was obligated and \$2,330,304 represented a non-Federal cost-sharing amount. The initial period of performance was from January 3, 2005 through January 2, 2008. The Agreement was modified a total of 14 times, resulting in an extension of the period of performance through September 30, 2010, as well as an increase in the total budget amount to \$28,230,800. The final modification de-obligated a portion of the award and reduced the budget amount to \$27,361,200.

The purpose of the Agreement was to provide support for the Initiative to Promote Afghan Civil Society (I-PACS) and assist in the expansion of a vibrant Afghan civil society through capacity building and technical assistance, implementation of an enabling non-governmental organization law, and the award and administration of small grants to civil society organizations. A particular emphasis was placed on supporting women-focused civil society organizations. The goal of the I-PACS project was to increase the role and viability of Afghan civil society. Throughout the life of the project, Counterpart worked to implement the following four program components that were critical to the successful execution of the I-PACS project.

1. To ensure informed policy and just resource allocation decisions regarding civil society in Afghanistan;
2. To assist in the development and implementation of a comprehensive legal framework that strengthens the Non-Governmental Organization (NGO) sector;
3. To build the capacity of Civil Society Organizations (CSOs) to design implement, manage, monitor and evaluate their activities effectively; and
4. To provide funding to CSOs to implement developmental and advocacy projects.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Notes to Fund Accountability Statement

(Continued)

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Fund Accountability Statement has been prepared in accordance with methods of preparation that are prescribed or permitted by USAID. Under these methods of preparation, revenues are reported when received. This practice differs in some respects from generally accepted accounting principles which provide for revenues to be reported when earned. The costs in the schedule are reported when incurred.

(b) Foreign Currency Conversion Method

Counterpart converts its expenses that were paid in local currency (Afghanis) into reporting currency (U.S. Dollar) by applying an average monthly rate based upon the bank rates used to transfer funds between U.S. dollar account and Afghanis account.

(c) Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement or applicable laws and regulations, including 22 CFR Part 226 and Office of Management and Budget (OMB) Circular A-122. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

(3) Revenues

As of September 30, 2010, Counterpart has reported \$27,336,201 in revenue from USAID under the Agreement. For the period January 3, 2005 through September 30, 2010, Counterpart has invoiced a total of \$27,179,524 to USAID. The balance of \$156,677 represents an amount due to USAID. See Note 10 for details on the settlement of this amount.

(4) Salaries and Fringe Benefits

Counterpart reported salaries and fringe benefits costs in the amount of \$5,900,208 for the period January 3, 2005 through September 30, 2010. Counterpart did not have an approved fringe benefit rate. As such, it reported actual fringe benefits incurred. Unsupported salaries and fringe benefits consisted of the following. See Finding 2013-1 in the Findings and Responses section of this report. Also, see Note 8 for details of the associated indirect costs applicable to this cost category.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Notes to Fund Accountability Statement

(Continued)

(4) Salaries and Fringe Benefits (Continued)

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
No documentation provided to support bonus for HQ staff	1	\$ 3,000
No documentation provided to support local staff salaries	3	20,543
Missing timesheets and lack of payroll certification for local staff	1	13,468
Missing timesheet and payroll register for local staff	1	2,200
No documentation provided to support stipends for HQ staff	2	1,132
No documentation provided to support field staff salaries	4	36,095
No documentation provided to support fringe benefits	<u>9</u>	<u>26,397</u>
Total questioned salaries and fringe benefits	<u>21</u>	<u>\$102,835</u>

(5) Subawards

Counterpart reported subawards costs in the amount of \$1,519,306 for the period January 3, 2005 through September 30, 2010. Unsupported subawards costs consisted of 2 transactions totaling \$12,870 for which there was no authorized signature approving the payment. See Finding 2013-1 in the Findings and Responses section of this report. Also, see Note 8 for details of the associated indirect costs applicable to this cost category.

(6) Grant Programs

Counterpart reported grant programs costs in the amount of \$9,677,523 for the period January 3, 2005 through September 30, 2010. Unsupported grant programs costs consisted of 4 transactions totaling \$220,570 for which no expenditure vouchers were provided. See Finding 2013-1 in the Findings and Responses section of this report. Also, see Note 8 for details of the associated indirect costs applicable to this cost category.

(7) Other Direct Costs and Travel

Counterpart reported other direct costs and travel in the amount of \$6,705,888 for the period January 3, 2005 through September 30, 2010. Unsupported other direct costs and travel consisted of the following. See Finding 2013-1 in the Findings and Responses section of this report. Also, see Note 8 for details of the associated indirect costs applicable to this cost category.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Notes to Fund Accountability Statement

(Continued)

(7) Other Direct Costs and Travel (Continued)

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
No documentation provided to support contractual costs	2	\$ 44,134
Incorrect invoice provided and no approval of payment	1	6,300
Missing invoice to support contractual costs	2	7,767
No documentation provided to support training costs	7	37,486
Missing invoice to support training costs	3	31,604
No documentation provided to support travel costs	10	54,673
Missing invoice to support travel costs	29	6,095
No documentation provided to support equipment costs	1	13,986
Missing invoice to support equipment costs	10	24,780
No documentation provided to support other direct costs	9	75,611
Missing invoice to support other direct costs	<u>69</u>	<u>50,419</u>
 Total questioned other direct costs and travel	 <u>143</u>	 <u>\$352,855</u>

(8) Indirect Costs

Counterpart reported indirect costs in the amount of \$3,376,599 for the period January 3, 2005 through September 30, 2010. The final negotiated indirect cost rates were as follows.

<u>Type</u>	<u>Effective Period</u>		<u>Overhead (a)</u>	<u>Sub-Handling(b)</u>
	<u>From</u>	<u>Through</u>		
Final	10/01/04	09/30/05	27.90%	n/a
Final	10/01/05	09/30/06	28.79%	n/a
Final	10/01/06	09/30/07	28.27%	n/a
Final	10/01/07	09/30/08	27.95%	n/a
Final	10/01/08	09/30/09	24.02%	n/a
Final	10/01/09	09/30/10	23.07%	5.29%

The basis of allocation for the indirect costs is as follows:

- (a) Program costs excluding in-kind contributions (i.e., donated services, equipment and supplies), pass-through costs, and subgrants of \$25,000 or less.
- (b) Total subcontract and subgrant cost.

The appropriate overhead rate for each year was applied to the individual costs questioned. A summary of associated questioned indirect costs by cost category is as follows:

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Notes to Fund Accountability Statement

(Continued)

(8) Indirect Costs (Continued)

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Associated Questioned Indirect Cost</u>
Salaries and fringe benefits (Note 4)	\$102,835	\$ 28,883
Subawards (Note 5) *	12,870	-
Grant programs (Note 6) **	220,570	-
Other direct costs and travel (Note 7)	<u>352,855</u>	<u>97,304</u>
Total questioned indirect costs	<u>\$689,130</u>	<u>\$126,187</u>

* There are no associated indirect costs for subawards as the subawards were less than \$25,000 and incurred prior to October 1, 2009.

** There are no associated indirect costs for grant programs as all of the questioned costs within grant programs were incurred prior to October 1, 2009.

(9) Outstanding Fund Balance

As of September 30, 2010, there was an outstanding amount due to USAID in the amount of \$156,677, which represents amounts received from USAID in excess of costs incurred. See Note 10 for details on the settlement of this amount.

(10) Subsequent Event

Counterpart filed its final Federal Financial Report (SF425) with USAID on October 7, 2013. The final report reflects adjustments made to program costs based upon the final negotiated indirect cost rate as issued by USAID for the period October 1, 2009 through September 30, 2010. Based upon the final SF425 filed, there is a balance due to USAID in the amount of \$156,677. This amount was paid to USAID on October 8, 2013.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

We have audited the Fund Accountability Statement of Counterpart International, Inc. (Counterpart) for Cooperative Agreement Number 306-A-00-05-00511-00 (Agreement) with the United States Agency for International Development (USAID) for the period January 3, 2005 through September 30, 2010, and have issued our report thereon dated December 2, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Management of Counterpart is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Counterpart's internal control over financial reporting, with respect to the Agreement, as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of Counterpart's internal control over financial reporting with respect to the Agreement. Accordingly, we do not express an opinion on the effectiveness of Counterpart's internal control over financial reporting with respect to the Agreement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Findings and Responses, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Findings and Responses as item 2013-1 to be a material weakness.

Board of Directors
Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

Counterpart's response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. We did not audit Counterpart's response and, accordingly, we express no opinion on it.

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

A handwritten signature in blue ink that reads "Mayer Hoffman McLean P.C." The signature is written in a cursive style.

Irvine, California
December 2, 2013



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

Board of Directors
Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

We have audited the Fund Accountability Statement of Counterpart International, Inc. (Counterpart) for Cooperative Agreement Number 306-A-00-05-00511-00 with the United States Agency for International Development (USAID) for the period January 3, 2005 through September 30, 2010, and have issued our report thereon dated December 2, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States

As part of obtaining reasonable assurance about whether Counterpart's Fund Accountability Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Fund Accountability 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Findings and Responses as item 2013-2.

Counterpart's response to the finding identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. We did not audit Counterpart's response and, accordingly, we express no opinion on it.

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

A handwritten signature in blue ink that reads "Mayer Hoffman McCann P.C." in a cursive, stylized font.

Irvine, California
December 2, 2013

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Findings and Responses

For the Period January 3, 2005 through September 30, 2010

2013-1: Missing or Insufficient Source Documentation to Support Expenses

Condition:

Counterpart could not provide records, or provided insufficient records, to support transactions selected for testing in all cost categories. Specifically, the following observations were noted:

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Salaries and fringe benefits:		
No documentation provided to support bonus for HQ staff	1	\$ 3,000
No documentation provided to support local staff salaries	3	20,543
Missing timesheets and lack of payroll certification for local staff	1	13,468
Missing timesheet and payroll register for local staff	1	2,200
No documentation provided to support stipends for HQ staff	2	1,132
No documentation provided to support field staff salaries	4	36,095
No documentation provided to support fringe benefits	<u>9</u>	<u>26,397</u>
Subtotal salaries and fringe benefits	<u>21</u>	<u>102,835</u>
Subawards:		
No authorized signature approving payment	<u>2</u>	<u>12,870</u>
Subtotal subawards	<u>2</u>	<u>12,870</u>
Grant programs:		
Missing expenditure vouchers	<u>4</u>	<u>220,570</u>
Subtotal grant programs	<u>4</u>	<u>220,570</u>
Other direct costs and travel:		
No documentation provided to support contractual costs	2	44,134
Incorrect invoice provided and no approval of payment	1	6,300
Missing invoice to support contractual costs	2	7,767
No documentation provided to support training costs	7	37,486
Missing invoice to support training costs	3	31,604
No documentation provided to support travel costs	10	54,673
Missing invoice to support travel costs	29	6,095
No documentation provided to support equipment costs	1	13,986
Missing invoice to support equipment costs	10	24,780
No documentation provided to support other direct costs	9	75,611
Missing invoice to support other direct costs	<u>69</u>	<u>50,419</u>
Subtotal other direct costs and travel	<u>143</u>	<u>352,855</u>
Total costs for which missing or insufficient support was provided	<u>170</u>	<u>\$689,130</u>

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Findings and Responses

(Continued)

2013-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Cause:

Counterpart did not have an adequately implemented record retention policy that would allow for the proper storage and timely retrieval of supporting documentation. Counterpart believes that the majority of the missing documentation was contained in boxes that were destroyed in a storm in June 2012 at its off-site archive vendor. However, no documentation to support this claim was provided.

Criteria:

22 CFR 226.53, *Retention and access requirement for records*, states, in part:

“...(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...”

Additionally, OMB Circular A-122, Attachment A, Paragraph A, *Basic Considerations*, states, in part:

“...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:..

g. Be adequately documented....”

Effect:

Failure to maintain adequate supporting documentation could result in an inability to demonstrate that costs incurred were allowable, allocable and related to the Agreement. Total questioned costs are as follows:

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Associated Indirect Cost</u>	<u>Total Questioned Cost</u>
Salaries and fringe benefits	\$102,835	\$ 28,883	\$131,718
Subawards	12,870	-	12,870
Grant programs	220,570	-	220,570
Other direct costs and travel	<u>352,855</u>	<u>97,304</u>	<u>450,159</u>
Total questioned costs	<u>\$689,130</u>	<u>\$126,187</u>	<u>\$815,317</u>

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Findings and Responses

(Continued)

2013-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Recommendation:

- (1) We recommend that Counterpart either provide adequate documentation to USAID or return \$815,317 for which supporting documentation was either missing or inadequate.
- (2) We recommend that Counterpart establish a formal record retention policy and a disaster recovery plan. Once established, training should be provided to employees so as to ensure records are properly maintained, retained and able to be recovered in the event of a natural disaster.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Findings and Responses

(Continued)

2013-2: Need to Review the Excluded Parties List

Condition:

For all of the 161 transactions tested, there was no documentation provided to support that Counterpart conducted reviews of vendors in the Excluded Parties List System (EPLS) prior to entering into vendor contracts to verify that the vendors were not suspended, debarred or otherwise excluded from receiving Federal funds.

Cause:

During the award period of 2005 through 2010, Counterpart indicated that it did not perform an EPLS check on the vendors, but instead relied on the vendors to certify on their own that they were not an excluded party by completing a "Certification Regarding Terrorist Financing" form prior to entering into vendor contracts. Beginning in 2011, Counterpart required that all commitments entered into with Federal funding be screened against the EPLS and the Treasury Department's Specially Designated Nationals List (SDN).

Criteria:

22 CFR 226.13, *Debarment and suspension*, states:

"USAID and recipients shall comply with the nonprocurement debarment and suspension common rule implementing E.O.s 12549 and 12689, Debarment and Suspension," 22 CFR part 208. This common rule restricts subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

Additionally, Cooperative Agreement No. 306-A-00-05-00511-00, Attachment 3, *Standard Provisions for U.S., Non-Government Recipients*, Section C.19, *Debarment, Suspension, and Other Responsibility Matters Responsibility*, states in part:

"...(2). The recipient agrees that, unless authorized by the Agreement Officer, it will not knowingly enter into any subagreements or contracts under this grant with a person or entity that is included on the Excluded Parties List System (<http://epls.arnet.gov>)..."

This criteria requires that Counterpart not do business with excluded parties. As such, Counterpart must review the excluded parties list prior to entering into contracts and document evidence of this review in order to demonstrate it has complied with the criteria.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Findings and Responses

(Continued)

2013-2: Need to Review the Excluded Parties List (Continued)

Effect:

By not checking the EPLS for vendors excluded from Federal procurement and nonprocurement programs, Federal funds might be paid to a vendor that is debarred, suspended, or otherwise prohibited from receiving Federal funds. None of the vendors were determined to be on the excluded parties list and therefore no costs were questioned in this finding.

Recommendation:

No recommendation is warranted as Counterpart instituted policies and procedures in 2011, subsequent to the period under audit, to perform the required EPLS checks.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Counterpart International, Inc. Response to Findings

For the Period January 3, 2005 through September 30, 2010

Included on the following pages is Counterpart's response received to the findings identified in this report. In addition to the narrative response, Counterpart provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.

**Counterpart International, Inc.
Responses to Financial Audit of Costs
Incurred Under Cooperative Agreement No. 306-A-00-05-00511-11
For the Period January 3, 2005 through September 30, 2010**

Page 23

2013-1: Missing or Insufficient Source Documentation to Support Expenses (Continued)

Recommendation:

(1) We recommend that Counterpart either provide adequate documentation to USAID or return \$815,317 for which supporting documentation was either missing or inadequate.

Management Response:

On June 28, 2012 a catastrophic event at the site of Counterpart International's off-site archive vendor, Recall Corporation, resulted in the destruction of 191 boxes identified by the vendor as belonging to Counterpart International. In the three-day recovery effort, another 12 Counterpart boxes were also damaged beyond use. The incident and details of the damage sustained are conveyed in the enclosed letter from Recall Corporation along with the Certificate of Destruction for the original 191 boxes. This report along with the Certification of Destruction was provided to the auditors. Counterpart was able to recover some supporting documentation from virtual records through the efforts of the entire organization over the past five months. As recovered documents were found, they were made available to the audit firm.

Please see the attached report and resubmitted scanned documents that list the questioned costs and identify the most current status on missing or incomplete documentation. Of the \$815,317 questioned costs, Counterpart believes it has adequate documentation for \$514,168.

(2) We recommend that Counterpart establish a formal record retention policy and a disaster recovery plan. Once established, training should be provided to employees so as to ensure records are properly maintained, retained and able to be recovered in the event of a natural disaster.

Management Response:

Counterpart International does have a formal document retention policy. However, it is in the process of developing a disaster recovery plan which will include a central, virtual depository of all necessary documents.

**Counterpart International, Inc.
Responses to Financial Audit of Costs
Incurred Under Cooperative Agreement No. 306-A-00-05-00511-11
For the Period January 3, 2005 through September 30, 2010**

Page 25

Finding Number: 2013-2; Need to Review the Excluded Parties List (Continued)

Recommendation:

(1) We recommend that Counterpart establish procedures to prompt checks of the System for Award Management (SAM) to verify that the vendors with which it does or plans to do business are not excluded parties. SAM has replaced the EPLS.

Management Response:

During the audit period of 2005 through 2010, all vendors had a “Certification Regarding Terrorist Financing” form on file. As of 2011, Counterpart has established written procedures to ensure that all vendors have been vetted through the central system to determine that they have not been disbarred, suspended or otherwise prohibited from receiving Federal funds.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Auditors' Rebuttal to Counterpart's Response to the Findings

For the Period January 3, 2005 through September 30, 2010

Counterpart partially disagreed to 1 of the findings presented in this report. We have reviewed its management response and offer the following rebuttal to the finding to which it disagreed.

2013-1: Missing or Insufficient Source Documentation to Support Expenses

For recommendation number 1, Counterpart believes that since additional documents were located and made available for our review, \$514,168 of the \$815,317 questioned costs should be considered as adequately supported. Counterpart was provided an additional week beyond the exit conference in order to provide records, which it did. We accepted those records and revised the report accordingly. Counterpart submitted additional records with its management response to the findings included in this report. As the date for providing documentation had passed, we did not consider this additional documentation. We have forwarded the additional documentation that was submitted with its management response to SIGAR. Our recommendation remains unchanged.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

For the Period January 3, 2005 through September 30, 2010

The following prior findings and recommendations were reviewed as part of the scope of this audit. We have included the condition, current status of each recommendation and whether the corrective action has been adequately implemented.

Single Audit Act Reports

Counterpart provided six Single Audit Act Reports for the years ended September 30, 2005 through September 30, 2010. Within these reports, six findings were noted that could have a material effect on the FAS. Based upon our review, all corrective actions have been adequately implemented. A summary of the findings and the corrective actions implemented is as follows:

Single Audit Act Report for Year Ended September 30, 2007

1. Condition: A number of general ledger asset accounts had not been reconciled.

Current Status: Based upon our review of account reconciliations, Counterpart has systems in place to accurately reconcile all accounts and no instances of unreconciled accounts were noted in subsequent audits. As such, adequate corrective actions have been implemented and this finding has been resolved.

Single Audit Act Report for Year Ended September 30, 2009

1. Condition: Counterpart did not identify Federal in-kind contributions from the U.S. Department of State, as well as a federal loan from OPIC, on its SEFA.

Current Status: The SEFA for subsequent years identifies the U.S. Department of State as well as the loan from OPIC. As such, adequate corrective actions have been implemented and this finding has been resolved.

Single Audit Act Report for Year Ended September 30, 2010

1. Condition: In-kind inventory was not properly recorded in the financial statements.

Current Status: Counterpart has implemented controls to ensure that commodities are properly reported as of the end of the period by performing a physical inventory observation. Additionally, Counterpart continues to focus on commodities and improving the donated inventory controls and has implemented a new comprehensive plan which includes manuals, trainings and site visits to ensure compliance. As such, adequate corrective actions have been implemented and this finding has been resolved.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

(Continued)

2. Condition: Audit schedules including the SEFA, accounts receivable, deferred revenue roll forward and inventory listings were not prepared by Counterpart.

Current Status: Per our review and inquiry, Counterpart has improved its financial systems to provide such information in a timely manner as it is requested. This was evidenced by Counterpart responding timely to all of our requests for information as part of this audit. As such, adequate corrective actions have been implemented and this finding has been resolved.

3. Condition: The Single Audit Act Report and Data Collection Form were not submitted within the required timeframe to the Federal Clearinghouse.

Current Status: The Single Audit Act Report and Data Collection Form for the years ended September 30, 2011 and 2012 were submitted within required timeframes. As such, adequate corrective actions have been implemented and this finding has been resolved.

4. Condition: Counterpart fell short on its matching requirement per the Cooperative Agreement for the I-PACS program by the end of the grant period in the amount of \$635,000.

Current Status: In September 2011, members of the compliance team held trainings for all practice areas, including HQ staff and field staff on the subject of cost sharing. Additionally meetings were held with project teams to review cost sharing obligations and action plans were developed to ensure requirements were met. Furthermore, a formal cost sharing guidance document was developed and included templates for recording cost sharing expenses. On a go forward basis, adequate corrective actions have been implemented and this finding has been resolved.

Counterpart Internal Audit Reviews of I-PACS

Counterpart performed an internal audit review of I-PACS in June 2008. The internal audit review identified 9 findings. Based upon our review, all corrective actions have been adequately implemented. A summary of the findings and the corrective actions implemented is as follows:

1. Condition: Cash on hand, U.S. Dollars and/or Afghanis (AFS), kept in a safe exceeded the ceiling of \$10,000 or AFS equivalent. Additionally, cash transferred from the bank either by the Accountant or Finance Officer is performed by using the office vehicle. Security measures, such as employing security guards, do not exist.

Current Status: Per our review and inquiry, we noted that the Kabul field office and guesthouse cash thresholds have been increased to \$20,000 and \$5,000, respectively, due to the nature of working in Afghanistan. Any amounts above these thresholds must be approved by the

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

(Continued)

Counterpart HQ Financial Officer. Documented procedures, including the employment of security services and secured safes, were introduced to mitigate risks associated with maintaining higher cash thresholds. Currently, each trip to the bank now requires an escort, a driver, an armored vehicle, and one Finance staff member to secure funds to the bank and to safely return the staff back to the office. As such, adequate corrective actions have been implemented and this finding has been resolved.

2. Condition: Pre-numbered receipts were not used for any cash received in the office.

Current Status: Per our review and inquiry, it was noted that cash is withdrawn from the bank only on the basis of a voucher approved by the CoP or DCoP, which clearly indicates the person to receive the cash. Cash withdrawn is then placed in a safe in the DCoP office, which requires 2 keys to open it. One key is in the possession of the DCoP, and the other key is in the possession of the Cash Custodian. Both staff members bring the cash into the DCoP office and the DCoP signs off on the amount of cash received and placed in the safe. Cash for daily operations is then withdrawn from the safe by the Cash Custodian. The amounts are documented and countersigned by the Cash Custodian and the DCoP. Cash for daily operations is then secured in a smaller safe located in the Finance Office. The funds received are accounted for during monthly reconciliations that are performed for cash on hand accounts. As such, adequate corrective actions have been implemented and this finding has been resolved.

3. Condition: Transaction approval levels as detailed in the Finance Policies and Procedures Manual are not followed.

Current Status: Based upon our testing of expenditures, Counterpart has adhered to approval levels and has established clear delegations of authority levels for HQ and field staff, which are documented in its Field Office Financial Operations Manual. As such, adequate corrective actions have been implemented and this finding has been resolved.

4. Condition: The Finance Officer is responsible for payroll. However, the Admin Officer calculates the final pay for an employee that has been terminated, which is not part of the job responsibilities of that position.

Current Status: Per our review and inquiry, end of employment letters that outline the relevant HR policies for departing employees are drafted by HR and approved by the DCoP – Finance, Admin, and Operations. The end of employment letters are then submitted to Finance to provide the basis for the calculation of the final pay. The calculation is performed by the Finance Officer and payment is approved by the DCoP – Finance, Admin, Operations, and the CoP. As such, adequate corrective actions have been implemented and this finding has been resolved.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

(Continued)

5. Condition: The majority of field personnel (24 out of 39) are paid in cash and not processed through a bank. Salaries greater than \$500 are to be processed through the bank.

Current Status: The Counterpart Kabul Field Office has set up bank accounts for its professional staff and the offer has been extended to all support staff. Due to specific circumstances related to operating in Afghanistan, such as a weak banking system, a cash-based economy, limited availability of Automated Teller Machines (ATMs) and lack of public transportation, Counterpart has been paying its support staff in cash. The total salaries paid in cash per pay period ranges between \$8,000 and \$9,000, with an average individual cash payment per pay period of between \$450 and \$500, which is within the established cash threshold limits. A separate payroll sheet is prepared for salaries paid in cash, and a separate check is issued to the Finance Officer to withdraw funds. All established security procedures are followed and staff is paid the same day or the next day. To the extent possible, salaries are paid to support staff on the day cash is withdrawn by the bank. Salaries are then paid only to the respective employee and the employee receiving the cash signs to confirm receipt of funds. As such, adequate corrective actions have been implemented and this finding has been resolved.

6. Condition: A Goods Received Note or Delivery Note is not prepared at the time of receipt of goods from an external source.

Current Status: Based upon our testing of expenditures, we noted that delivery/receipt reports are prepared for any goods or materials received and are signed by two Counterpart employees. As such, adequate corrective actions have been implemented and this finding has been resolved.

7. Condition: An issuance note was not used for the issuance of assets or equipment. Beginning in June 2008, an Inventory Control Form was used in place of the issuance note, but only for information technology equipment.

Current Status: Per our review and inquiry, Inventory Control Forms for all equipment are issued to respective staff. Additionally, inventory lists of all assets in a particular office space are issued and countersigned by the staff person located in the office and the Admin staff responsible for the inventory. Delivery notes are also issued for supplies and materials. As such, adequate corrective actions have been implemented and this finding has been resolved.

8. Condition: A list of the top vendors is not maintained by the Admin Department for regular procurements as recommended by the Finance Policies and Procedures Manual.

Current Status: Per our review and inquiry, it was noted that Counterpart's current policies do not require the maintenance of a list of preferred vendors. Any purchase above \$500

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

(Continued)

undergoes a competitive procurement process. At the same time, a number of suppliers are used for particular services, such as fuel supply, water, office supplies, printing services, hotel, and workshop venues. Such suppliers are usually identified through Request for Proposals. Suppliers with contracts in excess of \$25,000 undergo the required USAID vetting process. As such, adequate corrective actions have been implemented and this finding has been resolved.

9. Condition: Vehicle and Generator Logs are maintained but fuel consumption of a vehicle is not calculated on the face of log books.

Current Status: Based upon our testing of vehicle expenses, each of Counterpart's company-owned vehicles has an assigned logbook to document the amount of fuel refill per transaction. As such, adequate corrective actions have been implemented and this finding has been resolved.

Counterpart also performed an internal audit review of I-PACS' project office operations during a field visit in May 2009. The internal audit review identified 10 findings. Based upon our review, Counterpart adequately implemented the corrective actions for all 10 findings. A summary of the findings and corrective actions implemented are as follows:

1. Condition: A surprise cash count needs to be conducted at least once a month by an independent person outside of the Finance Office (the CoP or the DCoP).

Current Status: Cash reconciliations are conducted on a regular basis and used to support cash replenishment. Month end cash reconciliations are conducted and certified by the Finance Manager and the DCoP – Finance, Admin and Operations. These reconciliations are supported by cash counts conducted by the Cash Custodian, Finance Manager and the CoP at the end of each calendar month. While surprise cash counts are not performed regularly and are not prescribed in written policies, the Field Office has established a number of other systems to ensure cash is handled properly. Cash transactions are documented and approved by the CoP and DCoP, cash is withdrawn from the bank only on the basis of approval by the CoP, and DCoP prepares a voucher indicating the person to receive the cash. Cash withdrawn is then placed in a safe in the DCoP office, which requires 2 keys to open it. One key is in the possession of the DCoP, and the other key is in the possession of the Cash Custodian. Both staff members bring the cash into the DCoP office and the DCoP signs off on the amount of cash received and placed in the safe. Cash for daily operations is then withdrawn from the safe by the Cash Custodian. The amounts are documented and countersigned by the Cash Custodian and the DCoP. Cash for daily operations is then secured in a smaller safe located in the Finance Office. The funds received are accounted for during monthly reconciliations that are performed for cash on hand accounts. As such, adequate corrective actions have been implemented and this finding has been resolved.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

(Continued)

2. Condition: The official Cash Receipts Form, which is included as an Exhibit in the Finance Policies and Procedures Manual, needs to be printed and issued by the Petty Cash Custodian when receiving cash refunds from employees.

Current Status: Cash vouchers are used to document each transaction. Cash is disbursed only following necessary approvals. Recipients of cash sign the refund/cash voucher to document receipt of cash. As such, adequate corrective actions have been implemented and this finding has been resolved.

3. Condition: Timesheets and leave forms need to be reviewed and attached to the monthly payroll register.

Current Status: Based upon our testing of salaries and wages, we noted that this process is currently in place and operating effectively. Payrolls are prepared only on the basis of fully approved timesheets and leave requests. These are attached to the payroll payments and a leave tracker is also maintained and updated on a monthly basis and attached to the payroll register. As such, adequate corrective actions have been implemented and this finding has been resolved.

4. Condition: Travel authorizations need to be issued for all official trips outside of the employee's duty station for administrative approval and to clarify the traveler's per diem allowance and/or other entitlements, if any.

Current Status: Based upon our testing of travel expenses, travel authorizations are issued for any business trip. Travel requests are cleared by the Security Office and approved by the CoP or DCoP. Travel advances are issued only for those trips that have been approved, and are calculated based upon meals and entertainment expense, lodging, and other local travel expenses for each particular trip. International travel is approved by the I-PACS Agreement Officer Representative (AOR) and internally. As such, adequate corrective actions have been implemented and this finding has been resolved.

5. Condition: A leave slip is needed for all absences taken by an employee and is to be approved by the employee's supervisor. The approved leave slip must be attached to the timesheet, which is attached to, or referenced to, the payroll register.

Current Status: Based upon our testing of salaries and wages, it was noted that Counterpart has implemented procedures to require that employee leave slips are completed and approved by the employee's supervisor. Additionally, the leave slip is attached to the timesheet for file retention. As such, adequate corrective actions have been implemented and this finding has been resolved.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-05-00511-00

Review of Prior Findings and Recommendations

(Continued)

6. Condition: The cost of insurance needs to be charged to the proper account.

Current Status: In reviewing Counterpart's general ledger, we confirmed that under the guidance of the Counterpart CFO, the following accounts have been established for insurance related costs: Account 59130 – Insurance, Commercial and Property, and Account 51525 – Fringe Cooperating Country National (CCN) Medical Insurance. In reviewing transactions coded to these accounts, the transactions are properly coded. As such, adequate corrective actions have been implemented and this finding has been resolved.

7. Condition: Proof of HQ's approval of procurements in the amount of \$10,000 and greater needs to be attached to the procurement document and to the payment voucher.

Current Status: Based upon our review of Counterpart's procurement policies and procedures, the finding as stated is not applicable and has been updated. Procurement follows established delegation of authority levels. Any purchase of equipment of \$5,000 or above is approved by the I-PACS AOR. As such, adequate corrective actions have been implemented and this finding has been resolved.

8. Condition: The amount of \$2,510.99, which was spent on a farewell party in honor of the former CoP, is reimbursed to the I-PACS project out of NICRA funds.

Current Status: Per our review and inquiry, the reimbursement of \$2,510.99 was completed in June 2009 as evidenced by an HQ journal voucher which processed the credit to the Staff Development account. Additionally, based upon our review of expenses charged to the Agreement, no costs were noted which appeared to be non-allowable. As such, adequate corrective actions have been implemented and this finding has been resolved.

9. Condition: A Bill for Collections in the amount of \$834 was issued to the former CoP, representing a refund of an erroneous payment made to the former CoP.

Current Status: A reimbursement in the amount of \$834 was completed in June 2009 as evidenced by an HQ cash receipt entry which processed the credit to the Foreign Travel Field Staff account development account. As such, adequate corrective actions have been implemented and this finding has been resolved.

10. Condition: The fixed assets register needs to be updated prior to the end of each fiscal year.

Current Status: Counterpart has implemented procedures to update its fixed assets register on a regular basis with physical inventory checks be conducted on a quarterly basis. Additionally, year-end inventory certifications are prepared and approved by the CoP and DCoP. As such, adequate corrective actions have been implemented and this finding has been resolved.

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