

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 17-23 Financial Audit**

Department of State's Strengthening Afghan  
Governance and Alternative Livelihoods  
Program: Audit of Costs Incurred by the  
Aga Khan Foundation USA



SIGAR 17-23-FA/SAGAL

JANUARY  
2017

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On July 17, 2014, the Department of State (State) awarded an \$11,884,816 grant to the Aga Khan Foundation USA (AKF) to support the Strengthening Afghan Governance and Alternative Livelihoods Program. The program was intended to improve alternative livelihoods for vulnerable populations in Afghanistan, and complement similar past and current programming funded by the U.S. government. Program activities were anticipated to occur in 16 provinces across Afghanistan, including higher poppy cultivation areas in the south; provide training to farmers on adding value to licit crops; and introduce agricultural and new technologies. The grant was active from July 21, 2014, through January 20, 2016, with total costs incurred of \$11,078,002.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$11,078,002 in expenditures charged to the grant from July 21, 2014, through January 20, 2016. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in AKF's internal controls related to the grant; (2) identify and report on instances of material noncompliance with the terms of the grant and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AKF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AKF's Special Purpose Financial Statement. See Crowe'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, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2017

## Department of State's Strengthening Afghan Governance and Alternative Livelihoods Program: Audit of Costs Incurred by the Aga Khan Foundation USA

SIGAR 17-23-FA

### WHAT THE AUDIT FOUND

Crowe identified two material weaknesses and one significant deficiency in AKF's internal controls, and three instances of noncompliance with the terms and conditions of the grant. Of note, AKF did not meet its cost sharing requirements, which capped the amount AKF could seek as reimbursement from State. However, State's reimbursements for AKF costs exceeded the capped contribution amount. Accordingly, Crowe questioned \$928,370 in excess costs. In addition, Crowe questioned \$133,115 in costs because AKF could not produce supporting documentation showing that compliance monitoring occurred with respect to the fringe benefits charged by its subrecipient, the First MicroFinance Bank. Finally, AKF's foreign currency conversion process did not follow U.S. generally accepted accounting principles, which require the exchange rate to be recorded when a transaction occurs. Instead, AKF recorded its currency exchange transactions at the beginning of the month.

As a result of these internal control deficiencies and instances of noncompliance, Crowe identified \$1,061,510 in total questioned costs, all of which were unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the grant, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Cost Sharing	\$0	\$928,370	\$928,370
Currency Transactions	\$0	\$133,115	\$133,115
Contractual	\$0	\$25	\$25
<b>Totals</b>	<b>\$0</b>	<b>\$1,061,510</b>	<b>\$1,061,510</b>

Crowe identified three prior audit reports that could have a material impact on AKF's Special Purpose Financial Statement (SPFS). After reviewing those reports, Crowe concluded that there were no applicable findings and no follow-up action was required.

Crowe issued a modified opinion on AKF's SFPS due to the amount of material questioned costs.

### WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$1,061,510 in questioned costs identified in the report.**
- Advise AKF to address the report's three internal control findings.**
- Advise AKF to address the report's three noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

January 19, 2017

The Honorable John F. Kerry  
Secretary of State

The Honorable Hugo Llorens  
Special Chargé d'Affaires to Afghanistan

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by the Aga Khan Foundation USA (AKF) under a Department of State (State) grant to support the Strengthening Afghan Governance and Alternative Livelihoods Program.<sup>1</sup> Crowe's audit covered \$11,078,002 in expenditures charged to the grant from July 21, 2014, through January 20, 2016. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$1,061,510 in questioned costs identified in the report.**
- 2. Advise AKF to address the report's three internal control findings.**
- 3. Advise AKF to address the report's three noncompliance findings.**

The results of Crowe's audit are detailed in the attached report. We reviewed Crowe'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 AKF's Special Purpose Financial Statement. We also express no opinion on the effectiveness of AKF's internal controls or compliance with grant, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Crowe 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-086)

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<sup>1</sup> The Strengthening Afghan Governance and Alternative Livelihoods program was intended to improve alternative livelihoods for vulnerable populations in Afghanistan, and complement past and ongoing programming funded by the U.S. government.



**Aga Khan Foundation USA**  
**Strengthening Afghan Governance and Alternative Livelihoods (SAGAL) Program**  
**Special Purpose Financial Statement**  
**For the Period July 21, 2014, through January 20, 2016**  
**(With Independent Auditor's Report Thereon)**

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## Transmittal Letter

December 9, 2016

Board of Directors of the Aga Khan Foundation  
1825 K Street NW, Suite 901  
Washington, D.C. 20006

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

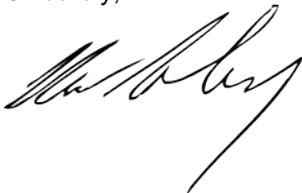
We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of the Aga Khan Foundation USA's ("AKF USA") grant with the United States Department of State funding the Strengthening Afghan Governance and Alternative Livelihoods 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 AKF USA, the Office of the Special Inspector General for Afghanistan Reconstruction, and the U.S. Department of State provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated herein.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of AKF USA's grant.

Sincerely,



Bert Nuehring, CPA, Partner  
Crowe Horwath LLP

## Summary

### Background

On July 17, 2014, the U.S. Department of State (“DOS”) awarded grant number SINLEC14GR0042 to the Aga Khan Foundation USA (“AKF USA”). The grant award included \$11,884,816 in Federal funding and a required recipient cost share amount of \$434,876. The total authorized cost was \$12,319,692. The costs were intended to benefit the Strengthening Afghan Governance and Alternative Livelihoods (“SAGAL”) Program within a project period of July 21, 2014, through January 20, 2016. The full project period and the subsequent 90 day closeout period are included within the scope of this audit.

The purpose of the SAGAL Program was to work to improve alternative livelihoods for vulnerable populations in Afghanistan and to complement past and ongoing U.S. Government alternative livelihood programming in Afghanistan. Activities were anticipated to occur in sixteen provinces across Afghanistan, including activities for higher poppy cultivation in the South. In executing on the program activities, AKF USA reported \$11,078,002 in costs incurred.

Within its final narrative report for the SAGAL Program, AKF USA reported various programmatic accomplishments, including but not limited to the following (unaudited by Crowe):

- 27,028 farmers across 16 target provinces were introduced to a range of new agricultural technologies and techniques;
- 19,812 farmers received training in post-production value addition to licit crops;
- 3,524 farmers were linked with 159 buyers through the conduct of 198 linkage building meetings – meetings intended to expand the market for farmers’ produce;
- 20,436 farmers received training on financial literacy; and
- Training was provided to District Governor Offices (“DGO”) and Provincial Line Department (“PLD”) staff, which contributed to 48 DGOs’ adoption of e-governance practices, 26 held public audit meetings, and 782 PLD institutions attending development planning workshops.

### 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 AKF USA’s SAGAL 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*:

#### *Audit Objective 1 – Special Purpose Financial Statement*

Express an opinion on whether AKF’s Special Purpose Financial Statement presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms and conditions of the grant agreement and generally accepted accounting principles or other comprehensive basis of accounting.

#### *Audit Objective 2 – Internal Controls*

Evaluate and obtain a sufficient understanding of AKF USA’s internal control related to the grant; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

*Audit Objective 3 – Compliance*

Perform tests to determine whether AKF USA complied, in all material respects, with the grant's requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the grant 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 AKF USA 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 or other financial data significant to the audit objectives.

## Scope

The scope of the audit included the period July 21, 2014, through January 20, 2016. The audit was limited to those matters and procedures pertinent to the grant that have a direct and material effect on the Special Purpose Financial Statement ("SPFS"). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, 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 and Property Management;
- Matching and Cost Share;
- 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.

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 accounting principles generally accepted in the United States of America; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by AKF USA. The system of internal control is intended to provide reasonable assurance of achieving reliable financial 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 grant. Crowe identified – through review and evaluation of the grant agreement executed by and between AKF USA and United States Department of State (“DOS”), the Code of Federal Regulations, and applicable circulars issued by the United States Office of Management and Budget – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including but limited to audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected expenditures, invoices submitted to the Government for payment, equipment and property purchases with Federal funding, subrecipients, and procurements made under the grant and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess AKF USA'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 Agreements.

Regarding Audit Objective 4, Crowe inquired of AKF USA and DOS staff participating in the audit entrance conference, and SIGAR to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified three prior reports for review and evaluation. The reports included OMB Circular A-133 audit reports for AKF USA and one set of audited financial statements for AKF Afghanistan. During Crowe's review of the reports, no findings were identified that were material to the SPFS or other financial data significant to the audit objectives. Therefore, the reports and the results contained therein contributed to Crowe's risk assessment procedures but procedures to assess corrective action taken in response to matters noted in the prior reports were not considered necessary.

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified four findings 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 grant; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued a modified opinion on the Special Purpose Financial Statement due to a material amount of questioned costs having been identified during the audit.

Crowe also reported on both AKF USA's compliance with the applicable laws, rules, regulations, and the terms and conditions of the grant and the internal controls over compliance and financial reporting. Two material weaknesses in internal control, one significant deficiency in internal control, and three instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$1,061,510 in costs was questioned. Questioned costs are summarized in **TABLE A** contained herein. The 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.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to AKF USA's financial performance under the grant. Based on Crowe's communications with AKF USA and DOS staff members participating in the audit entrance conference and liaising with Crowe during the engagement, there were three such reports. However, there were no findings noted that were material to the SPFS or the financial data significant to the audit objectives. Therefore, no follow-up procedures were required to be performed by Crowe.

**TABLE A: Summary of Findings and Questioned Costs**

Finding Number	Matter	Questioned Costs
2016-01	Cost Share Requirement Not Met	\$928,370
2016-02	Inadequate Subrecipient Monitoring Procedures and Classifications	\$133,115
2016-03	Unallowable Laundry Expense	\$25
2016-04	Foreign Currency Translation Process Misaligned with GAAP	\$0
<b>Total Questioned Costs</b>		<b>\$1,061,510</b>

**Summary of Management Comments**

Management agreed with the findings as written. With respect to the auditor's recommendations, management agreed with the recommendations for finding 2016-03 and 2016-04. Regarding the recommendations for findings 2016-01 and 2016-02, AKF USA agreed with the procedural recommendations. However, with respect to the recommended reimbursements noted in findings 2016-01 and 2016-02, AKF USA proposed to provide alternative supporting documentation for the State Department's evaluation so as to demonstrate that additional, allowable non-federal costs were incurred during the period of performance. Such an approach would, in management's assessment, result in an offset of the questioned costs subject to reimbursement and result in AKF USA's meeting the required cost share amount.

The auditor's rebuttal pertaining to these matters, including management's alternate approach, is included within **Appendix B** of this report.

**References to Appendices**

The auditor's reports are supplemented by two appendices: **Appendix A**, which contains management's responses to the audit findings; and **Appendix B**, which contains the auditor's rebuttal to management's comments.

**INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT**

To the Board of Directors of the Aga Khan Foundation  
1825 K Street NW, Suite 901  
Washington, D.C. 20006

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

***Report on the Special Purpose Financial Statement***

We have audited the Special Purpose Financial Statement ("the Statement") of Aga Khan Foundation U.S.A. ("AKF USA"), and related notes to the Statement, with respect to the Strengthening Afghan Governance and Alternative Livelihoods ("SAGAL") Program funded by grant number SINLEC14GR0042, for the period July 21, 2014, through January 20, 2016.

***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 IV of Solicitation ID11140014019 ("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 our audit. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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(Continued)

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

The audit identified \$1,061,510 in questioned costs as a result of AKF USA's not having contributed the minimum cost share contribution amount and having one transaction that was considered to be unallowable. The total questioned cost amount is considered to be material to the Statement.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

### ***Basis of Presentation***

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by AKF USA in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of grant number SINLEC14GR0042, 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 Award referred to above. Our opinion is not modified with respect to this matter.

### ***Restriction on Use***

This report is intended for the information of AKF USA, the Aga Khan Foundation, the United States Department of State, 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 November 18, 2016, on our consideration of AKF USA'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 AKF USA's internal control over financial reporting and compliance.



Crowe Horwath LLP

November 18, 2016  
Washington, D.C.

**AGA KHAN FOUNDATION U.S.A.**  
**Special Purpose Financial Statement**  
**Grant Award Number SINLEC14GR0042**  
**For the Period July 21, 2014, through January 20, 2016**

			<u>Questioned Costs</u>		<u>Notes</u>
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
<i>Revenues</i>					
US Department of State Cooperative Agreement Number SINLEC14GR0042	\$	11,884,815	\$	11,078,002	
<b>Total Revenue</b>	<b>\$</b>	<b>11,884,815</b>	<b>\$</b>	<b>11,078,002</b>	4
<i>Costs Incurred</i>					
A. Personnel	\$	2,149,118	\$	2,097,109	5
B. Fringe Benefits		638,425		594,984	
C. Travel		192,337		145,475	
D. Equipment		57,742		53,223	
E. Supplies		-		-	
F. Contractual		5,405,527		4,899,823	\$ 25 C
G. Construction		-		-	
H. Other		2,181,364		2,131,749	
J. Indirect Charges		1,260,303		1,155,640	
<b>Total Costs Incurred</b>	<b>\$</b>	<b>11,884,815</b>	<b>\$</b>	<b>11,078,002</b>	<b>\$ 1,061,485 A, B</b>
<b>Balance</b>		-	-		6

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

**Aga Khan Foundation U.S.A.**  
**Notes to the Special Purpose Financial Statement**  
**For the Period July 21, 2014, through January 20, 2016**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Agreement Number SINLEC14GR0042 for the Strengthening Afghan Governance and Alternative Livelihoods ("SAGAL") Program for the period July 21, 2014, through January 20, 2016. Because the Statement presents only a selected portion of the operations of the Aga Khan Foundation U.S.A. it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Aga Khan Foundation U.S.A. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award. 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 recognized in accordance with accounting principles generally accepted in the United States of America ("U.S. 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**

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. Conversions were made in accordance with Section 3.6.4 of the *Aga Khan Foundation Standard Operating Procedures (SOPs) Finance Section – Financial Advisory Services*, which requires conversion of transactions based on a rate calculated by averaging the buying and selling rate at the beginning of the month in which a transaction arises.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which the Aga Khan Foundation U.S.A. is entitled to receive from the U.S. Department of State for allowable, eligible costs incurred under the grant during the period of performance and closeout period.

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

The budget categories presented and associated amounts reflect the budget line items presented within the final, U.S. Department of State-approved agreement budget adopted.

**Note 6. Outstanding Balance**

The outstanding 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 grant 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 Special Purpose Financial Statement indicates a zero dollar balance as of April 20, 2016, which concluded the 90 day award closeout period.

**Note 7. Currency**

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

**Note 8. Matching or Cost Share Expenditures**

The Aga Khan Foundation U.S.A. has a cost share requirement of \$434,876. The total value of costs incurred during the period and applied to meet the cost share was \$371,348. Matching costs are not reflected in the Statement.

**Note 9. Subrecipients**

Aga Khan Foundation U.S.A. identified three sub-recipients: Mercy Corps, The Agency for Technical Cooperation and Development ("ACTED") and FMFB (The First Micro Finance Bank in Afghanistan. The table below includes the amount of funds awarded to each subrecipient and the actual costs incurred by each subrecipient that was subsequently reimbursed by Aga Khan Foundation U.S.A.

Subrecipient	Final Subaward Amount	Costs Incurred and Reimbursed
Mercy Corps (Federal)	\$3,824,193	\$3,318,490
ACTED (Federal)	\$1,581,333	\$1,581,333
FMFB* (cost share component)	\$302,276	\$236,877
<b>TOTAL:</b>	<b>\$5,707,802</b>	<b>\$5,136,700</b>

\*FMFB did not have any federal funding under this grant.

**Note 10. Receivable from U.S. Department of State**

As of the April 20, 2016, end of the award closeout period, The Aga Khan Foundation U.S.A. has received total funds in the amount of \$10,397,609.00 against total expenditures of \$11,078,002.45, hence resulting in a receivable of \$680,393.45 from US Department of State which is now received on August 15, 2016.

**Note 11. Program Status and Closeout Period**

The grant included a period of performance beginning on July 21, 2014, and concluding on January 20, 2016. All work performed under this award was complete as of the end of the period of performance. The grant's closeout period began on January 21, 2016, and concluded on April 20, 2016. Costs incurred subsequent to the end of the period of performance pertained specifically to reporting requirements applicable to the closeout period, as authorized by the Grants Officer and the U.S. Department of State's award specifics.

**Note 12. Transactions with Branch unit / Subsidiary entity**

On July 21, 2014, Aga Khan Foundation USA entered into a memorandum of understanding with its field unit and an implementing agency, Aga Khan Foundation Afghanistan, for activities to be conducted under Afghan Governance and Alternative Livelihoods (SAGAL) for estimated total funding amount of \$5,127,341 of which \$4,944,395 were expended by close-out which are fully paid.

**Note 13. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the July 21, 2014, through January 20, 2016, period covered by the Statement. Management has performed their analysis through November 18, 2016.

## Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>1</sup>

### **Note A. Cost Share Requirement Not Met**

Finding 2016-01 identified \$928,370 in questioned costs as a result of AKF USA's not having satisfied the cost share requirement. Under the terms of the grant, failure to meet the cost share requirement results in a reduction in the Federal contribution in proportion to the cost share deficiency. \$928,370 represents the amount of Federal funds that were reimbursed to AKF USA that exceeded the re-calculated Federal contribution amount.

### **Note B. Subrecipient Monitoring Procedures**

Finding 2016-02 questioned \$133,115 – the Federal share of expenditures associated with \$4,872 in inadequately supported fringe benefit costs recorded as cost share by the First MicroFinance Bank. The finding resulted from AKF USA's inability to produce supporting documentation showing that compliance monitoring occurred with respect to the fringe benefits charged by FMFB.

### **Note C. Unallowable Laundry Expense**

Finding 2016-03 questioned \$25 as a result of a laundry expense having been charged to the grant that did not directly related to program execution or that was otherwise required for the program.

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<sup>1</sup> Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors of the Aga Khan Foundation  
1825 K Street NW, Suite 901  
Washington, D.C. 20006

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Aga Khan Foundation U.S.A. ("AKF USA"), and related notes to the Statement, with respect to the Strengthening Afghan Governance and Alternative Livelihoods ("SAGAL") Program funded by grant number SINLEC14GR0042, for the period July 21, 2014, through January 20, 2016. We have issued our report thereon dated November 18, 2016, within which we have qualified our opinion.

### Internal Control over Financial Reporting

AKF USA'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 grant 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 July 21, 2014, through January 20, 2016, we considered AKF USA's internal controls to determine the 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 AKF USA's internal control. Accordingly, we do not express an opinion on the effectiveness of AKF USA'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 three findings in internal control that we consider to be material weaknesses or significant deficiencies.

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(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 2016-01 and 2016-02 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 deficiency noted in Finding 2016-04 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

We identified a deficiency in internal control that we communicated to management as identified in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-03.

We noted certain matters that we reported to AKF USA's management in a separate letter dated November 18, 2016.

### **Aga Khan Foundation USA's Response to the Findings**

AKF USA's response to the findings identified in our audit are in Appendix A to the audit report. AKF USA'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 AKF USA, the Aga Khan Foundation, the United States Department of State, 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

November 18, 2016  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors of the Aga Khan Foundation  
1825 K Street NW, Suite 901  
Washington, D.C. 20006

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Aga Khan Foundation U.S.A. ("AKF USA"), and related notes to the Statement, with respect to the Strengthening Afghan Governance and Alternative Livelihoods ("SAGAL") Program funded by grant number SINLEC14GR0042, for the period July 21, 2014, through January 20, 2016. We have issued our report thereon dated November 18, 2016, within which we have qualified our opinion.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the grant agreement is the responsibility of the management of AKF USA.

### 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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2016-01, 2016-02, and 2016-03 in the accompanying Schedule of Findings and Questioned Costs.

### Aga Khan Foundation USA's Response to the Findings

AKF USA's response to the findings identified in our audit are described in Appendix A to the audit report. AKF USA'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 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 AKF USA, the Aga Khan Foundation, the United States Department of State, 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.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, slightly slanted style.

Crowe Horwath LLP

November 18, 2016  
Washington, D.C.

## SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### **Finding 2016-01: Cost Share Requirement Not Met**

#### Material Weakness and Noncompliance

**Condition:** In the final SF-425 Federal Financial Report, Aga Khan Foundation certified that \$371,348 in costs were incurred that contributed to the cost share. The grant agreement required that Aga Khan provide \$434,876 in total cost share. Therefore, Aga Khan had a shortage of \$63,528 in cost share, or 14.6 percent. Due to the shortage, Aga Khan was only eligible to receive 85.4 percent of the authorized Federal funding, or \$10,149,632. Therefore, \$928,370 is in question, calculated as the difference between Federal funds authorized for reimbursement and actual funds received by Aga Khan (\$10,149,632 - \$11,078,002).

**Criteria:** The grant agreement requires the recipient to contribute \$434,876 in cost share.

The U.S. Department of State Bureau/Program Specific Requirements, incorporated as part of the grant agreement, includes the following requirement:

4. Cost-Sharing - It is understood and agreed that the Recipient must provide the minimum amount of cost sharing or in-kind contributions as stipulated in the Recipient's budget approved by the Grants Officer. Not providing the minimum amount of cost sharing or in-kind contribution as stipulated in the Recipient's approved budget may result in questioned costs and the Department of State contribution reduced in proportion to the amount of the questioned costs.

**Questioned costs:** \$928,370. The questioned cost amount is calculated as follows:

- AKF provided \$371,348 of the required cost share amount (\$434,876), or 85.4%. This represents a shortage of 14.6%.
- A corresponding decrease in Federal funds authorized would result in a new cap of \$10,149,632 (85.4% multiplied by \$11,884,815).
- Total actual federal expenditures (\$11,078,002) less the adjusted cap of \$10,149,632 results in a questioned cost amount of \$928,370.

**Effect:** The Government paid greater than the amount of funds necessary due to Aga Khan's not having provided the required amount of cost share.

**Cause:** AKF USA assumed that not expending the full amount of the Federal funds authorized would offset the shortage in cost share.

**Recommendation:** We recommend that AKF USA either identify an additional \$63,528 in cost share transactions or in-kind contributions that are fully supported and allowable or reimburse the Government \$928,370.

## **Finding 2016-02: Inadequate Subrecipient Monitoring Procedures and Classifications**

### Material Weakness and Non-Compliance

**Condition:** During the performance of our subrecipient monitoring auditing procedures, we noted the following:

1. AKF USA does not have a formal entity-wide policy or procedure document which explicitly describes the responsibilities and activities of AKF USA in monitoring its subrecipients.
2. AKF USA noted that a project management unit (PMU) was established in Afghanistan which had primary responsibility for programmatic monitoring. However, the PMU's activities were not documented. This includes evidence of monitoring the allowability of costs incurred by subrecipients, such as the First MicroFinance Bank ("FMFB"). We noted, for example, that \$4,872 in fringe benefits were charged and an exchange rate of 68.37 was used to convert fringe benefit charges from Afghanis to US Dollars. AKF did not conduct procedures to examine the allowability of the actual fringe benefit costs or the accuracy of currency translations. Rather, AKF USA indicated that an evaluation occurred during the proposal process and that such procedures and reviews were undocumented. In the absence of documentation showing that AKF USA conducted evaluations of the actual fringe benefit costs incurred for allowability and examined the translation of the fringe benefit amounts for accuracy, the \$4,872 in fringe benefits is in question. These amounts were recorded to the cost share. The corresponding Federal expenditure amount is in question.
3. AKF USA did not appropriately classify AKF Afghanistan and FMFB as subrecipients within the notes to the SPFS and did not consider the entities to be subrecipients. AKF USA's revised notes to the SPFS appropriately classify FMFB as a subrecipient, but omit AKF Afghanistan as a subrecipient.
4. AKF USA's procedures incorrectly reference OMB Circular A-122, which does not include a requirement for subrecipient monitoring.
5. AKF USA's procedures do not specify what constitutes a "timely" review of audit reports or what actions are required or expected to be taken in response to the reviews.
6. AKF USA does not formally document the review of subrecipient audit reports.

**Criteria:** The applicable regulatory definition of a subrecipient appearing in OMB Circular A-110 states:

(gg) *Subrecipient* means the legal entity to which a subaward is made and which is accountable to the recipient for the use of the funds provided. The term may include foreign or international organizations (such as agencies of the United Nations) at the discretion of the Federal awarding agency.

AKF USA utilizes its external auditor's subrecipient monitoring internal control summary dated December 31, 2015, to identify its controls over subrecipient monitoring. The document includes the following discussion of key controls:

#### **Conclusion - Controls:**

The key controls in this area are the approval of the sub-recipients and timely review of reports in accordance with OMB Circular A-122.

Pursuant to 22 CFR Part 145.23, *Cost sharing or matching*, contributions utilized to meet the cost share requirement must follow certain criteria, including but not limited to, being both verifiable from the recipient's records and allowable under the applicable cost principles.

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(Continued)

**Questioned costs:** \$133,115. The questioned cost amount has been calculated as follows:

- \$4,872 in fringe benefit costs charged to the grant are in question.
- The proportion of cost share to the Federal contribution for the grant is 3.66 percent (\$434,876 in required cost share divided by \$11,884,816 in Federal contribution).
- \$133,115 reflects the corresponding Federal expenditure amount (\$133,115 multiplied by 3.66 percent equals \$4,872 in cost share).

**Effect:** Failure to appropriately classify entities as subrecipients may result in AKF USA's not appropriately monitoring the entities as required by Federal regulation. In addition, regulatory reference errors or unclear expectations included in control guidance distributed throughout the organization may result in improper execution of monitoring procedures.

**Cause:** AKF USA did not consider it necessary to adopt a more robust procedure. It is unclear why evidence of monitoring was not retained.

**Recommendation:** We recommend that AKF USA take the following actions:

1. Reimburse the Government \$133,115 or otherwise provide documentation supporting the allowability and accuracy of the fringe benefit costs incurred by FMFB;
2. Document a formal subrecipient monitoring policy that includes the implementation of risk-based monitoring procedures;
3. Include, within its subrecipient monitoring policy, guidance regarding the classification of subrecipients and required retention of subrecipient monitoring-related records;
4. Either locate evidence of FMFB's fringe benefit costs having been evaluated for allowability and correctly translated or otherwise reimburse the Government for the proportionate amount of Federal funds due as a result of the unsupported cost share amount; and
5. Pending development of the subrecipient monitoring policy, we recommend that AKF USA update the document currently being used as its subrecipient monitoring procedure to reflect the appropriate regulatory guidance containing subrecipient monitoring requirements and specify what constitutes a "timely review" of audit reports.

### **Finding 2016-03: Unallowable Laundry Expense**

Deficiency and Noncompliance

**Condition:** During our testing of expenditure transactions, we identified one transaction for laundry expenses that is considered to be unallowable as the cost did not directly contribute to execution of the program. Rather, the transaction appeared to provide general support through the provision of laundry services.

**Criteria:** OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, requires that, for costs to be considered allowable, costs be reasonable for the performance of the award and be allocable thereto under the cost principles.

**Questioned costs:** \$25

**Effect:** The Government funded a transaction that did not result in direct benefit to the program.

**Cause:** AKF USA considered the cost to be appropriate due to the remote location of the work and ACTED – an AKF USA subrecipient – permits such reimbursements for its staff.

**Recommendation:** We recommend that AKF USA either provide alternative evidence of allowability or otherwise reimburse the Government \$25.

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(Continued)

## **Finding 2016-04: Foreign Currency Translation Process Misaligned with GAAP**

Significant Deficiency

**Condition:** During our review of AKF's accounting policies and procedures, we noted that the document provided to us to describe the foreign currency translation process - *Aga Khan Foundation Standard Operation Procedures (SOPs), Finance Section* - indicated that translations are made based on an average of the buying and selling rate at the beginning of the month in which the transaction arises. This approach is inconsistent with the provisions of Accounting Standards Codification 830, which requires translations to occur using the rate of exchange in effect on the date that the transaction is recorded in accordance with generally accepted accounting principles. Alternatively, an average rate may be used that encompasses the accounting period during which the costs was incurred. The guidance does not, however, expressly permit the use of an average rate computed prior to the date that a cost was incurred.

**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 of merchandise or services) is recorded in accounting records in conformity with generally accepted accounting principles (GAAP).

**Questioned costs:** None.

**Effect:** Costs incurred that are denominated in a foreign currency may be improperly translated. In addition, improper translations by subrecipients that are then recorded into AKF USA's financial records may be in error and go undetected.

**Cause:** Management appeared to be unaware of the GAAP departure.

**Recommendation:** We recommend that AKF USA complete a re-evaluation of its SOPs and modify the procedure to align with ASC 830. We further recommend that AKF USA design and implement a procedure to specific evaluation foreign currency translations that occur at the subrecipient level so as to provide assurance over the accuracy of AKF USA's entries.

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(Continued)

## **SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS**

Through discussion with Aga Khan Foundation USA and representatives of the U.S. Department of State, we identified three prior audit reports that were reviewed to determine if there were any findings that could be material to the Special Purpose Financial Statement or other financial data significant to the audit objectives. No such findings were noted. Accordingly, there were no corrective actions required for follow-up by Crowe Horwath.

## APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS



### AGA KHAN FOUNDATION U.S.A.

November 18, 2016

**Bert Nuehring, CPA, Partner**  
Crowe Horwath LLP  
1455 Pennsylvania Ave, NW  
Washington, DC 20004-1008

**Subject:** Management response to the Special Purpose Financial Statement ("the Statement") audit of Aga Khan Foundation U.S.A. ("AKF USA") with respect to the Strengthening Afghan Governance and Alternative Livelihoods ("SAGAL") program funded by grant number SINLEC14GR0042, for the period July 21, 2014 through January 20, 2016.

Dear Mr. Nuehring,

This correspondence is in response to your October 24, 2016 letter regarding the SAGAL financial audit conducted by your firm on behalf of the Special Inspector General for Afghanistan Reconstruction (SIGAR). As requested, AKF USA has provided responses below to the four findings and associated recommendations raised in the audit report.

Thank you for the opportunity to provide these responses. If you have any questions or require further information, please contact me at 202-293-2537 or [Noordin.Moloo@akdn.org](mailto:Noordin.Moloo@akdn.org).

Sincerely,

Noordin Moloo  
Chief Financial Officer  
Aga Khan Foundation U.S.A.

*An agency of the Aga Khan Development Network*

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1825 K Street, N.W., Suite 901, Washington, D.C. 20006  
Telephone: (202) 293-2537, Facsimile: (202) 785-1752, Website: [www.akdn.org](http://www.akdn.org),  
[info.aktusa@akdn.org](mailto:info.aktusa@akdn.org)

## **Audit Findings and Recommendations**

*Finding 2016-0: Cost Share Requirement Not Met*

*Recommendation: We recommend that AKF USA either identify an additional \$63,528 in cost share transactions or in-kind contributions that are fully supported and allowable or reimburse the Government \$928,370.*

**AKF USA Response:** AKF USA acknowledges the \$63,528 underspend in cost share and proposes to include additional cost share expenditures within SAGAL's final cost share numbers from another project implemented during SAGAL's period of performance which directly contributed to its objectives, both in terms of technical approach and geography, but was not funded by the US Government. There are no US federal regulations which prohibit this approach and AKF has prior experience including non-federal project expenditures as approved cost share within USG-funded projects in Afghanistan.

With funding from the Swedish International Cooperation Development Agency (Sida), the Stimulating Private Sector for Economic Development in Afghanistan (SPEDA) project is working with enterprises within selected agricultural value chains that can become strong economic drivers and stimulate further development of the value chains to provide producers and entrepreneurs (both men and women) with sustainable business and economic opportunities. Agricultural value chains were selected based off of products that have already shown potential for growth including potatoes, apples, dried fruits and nuts, rice, and poultry, and interventions are now taking place in several provinces which overlap with SAGAL geographies including Baghlan, Bamyan, Badakhshan, Takhar, and Kunduz. Between August-December 2015, AKF expended over \$400,000 in these provinces, and these expenses have since been audited and verified by PWC in a 3<sup>rd</sup> party auditor capacity.

SAGAL's overarching goal sought to improve alternative livelihoods for vulnerable populations in Afghanistan. The activities undertaken by the SPEDA project directly support this goal. In fact, SPEDA's activities were intentionally designed based on SAGAL's implementation and lessons learned, and are now directly contributing to SAGAL's interventions that worked to (1) improve agricultural yields of high potential licit crop systems, as well as (2) increase economic return for high potential licit crop systems. In many cases, the same groups, including input suppliers and farmers, which initially benefited from SAGAL also received (and are continuing to receive) support through SPEDA.

AKF proposes to include SPEDA's expenditures in overlapping SAGAL provinces between August-December 2015 within the SAGAL final cost share numbers. To do this, AKF will provide INI with the grant agreement from Sida, a 3<sup>rd</sup> party verification letter from the PWC auditors that certifies the expenses, and a cost share approval request which outlines SPEDA's close coordination with SAGAL activities.

*Finding 2016-02: Inadequate Subrecipient Monitoring Procedures and Classifications*

*Recommendation: We recommend that AKF USA take the following actions towards Subrecipient Monitoring Procedures and Classifications:*

- 1. Reimburse the Government \$133,115 or otherwise provide documentation supporting the allowability and accuracy of the fringe benefit costs incurred by FMFB;*
- 2. Document a formal subrecipient monitoring policy that includes the implementation of risk-based monitoring procedures;*
- 3. Include, within its subrecipient monitoring policy, guidance regarding the classification of subrecipients and required retention of subrecipient monitoring-related records;*

4. *Either locate evidence of FMFB's fringe benefit costs having been evaluated for allowability and correctly translated or otherwise reimburse the Government for the proportionate amount of Federal funds due as a result of the unsupported cost share amount; and*
5. *Pending development of the subrecipient monitoring policy, we recommend that AKF USA update the document currently being used as its subrecipient monitoring procedure to reflect the appropriate regulatory guidance containing subrecipient monitoring requirements and specify what constitutes a "timely review" of audit reports.*

**AKF USA Response:**

1. AKF USA acknowledges that FMFB has reported \$4,872 in fringe benefit costs under SAGAL's cost share component. As with finding 2016-01, AKF USA proposes to include approximately \$400,000 of expenditures incurred under the Stimulating Private Sector for Economic Development in Afghanistan (SPEDA) project between August-December 2015. With this amount's inclusion in SAGAL's final cost share numbers, AKF USA will offset the \$4,872 in questioned fringe benefit costs.
2. AKF USA acknowledges this recommendation and commits to formalizing a subrecipient monitoring policy which includes risk-based monitoring procedures during calendar year 2017.
3. AKF USA acknowledges this recommendation and commits to incorporating guidance on subrecipient classification and required retention of subrecipient monitoring-related records during calendar year 2017.
4. AKF USA acknowledges that FMFB has incurred and reported \$4,872 in fringe benefit costs under SAGAL's cost share component and proposes to offset these questioned costs with approximately \$400,000 of additional cost share incurred under the Stimulating Private Sector for Economic Development in Afghanistan (SPEDA) project between August-December 2015.
5. AKF USA acknowledges this recommendation and will update its existing subrecipient monitoring procedures document to reflect appropriate regulatory guidance for subrecipient monitoring requirements as well as specify what constitutes a "timely review" of audit reports.

*Finding 2016-03: Unallowable laundry expense*

*Recommendation: We recommend that AKF USA either provide alternative evidence of allowability or otherwise reimburse the Government \$25 (unallowable laundry expense) .*

**AKF USA Response:** AKF USA acknowledges this recommendation and agrees to reimburse the US Government \$25.

*Finding 2016-04: Foreign Currency Translation Process Misaligned with GAAP*

*Recommendation: We recommend that AKF USA complete a re-evaluation of its SOPs and modify the procedure to align with ASC 830. We further recommend that AKF USA design and implement a procedure to specific evaluation foreign currency translations that occur at the subrecipient level so as to provide assurance over the accuracy of AKF USA's entries.*

**AKF USA Response:** AKF USA acknowledges this recommendation and would like to clarify that throughout SAGAL's period of performance all foreign currency transactions were translated on the transaction date and therefore in compliance with generally accepted accounting principles (GAAPs) as well as Accounting Standards Codification 830 (ASC 830) provisions. AKF USA also acknowledges that its Standard Operating Procedures (SOPs), last updated in 2012, indicate that translations should be made

based on an average of the buying and selling rate at the beginning of the month in which the transaction arises. AKF USA commits to updating its SOPs so that they reflect ASC 830 provisions, and will develop and implement guidelines for subrecipients on foreign currency transaction translation procedures.

## **APPENDIX B: AUDITOR'S REBUTTAL**

Crowe Horwath LLP ("Crowe" or "we" or "us") has reviewed the letter dated November 18, 2016, containing Aga Khan Foundation USA's ("AKF USA" or "the auditee") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with a recommendation or otherwise discussed alternative documentation to support a change in the audit conclusion. In those instances where management has agreed with the finding, as presented, no rebuttal has been provided. Crowe did not deem it necessary to modify any of the findings following our review of management's comments.

### **Finding 2016-01 and Finding 2016-02**

Management concurred with the facts underlying the finding; however, AKF USA has proposed an alternative approach to resolution in lieu of reimbursing the United States Government for the questioned cost amounts identified in each finding. Specifically, AKF USA proposes to assemble and provide to the State Department supporting documentation for non-Federal expenditures pertaining to projects of similar scope performed in Afghanistan and that contributed to the objectives of the Strengthening Afghan Governance and Alternative Livelihoods (SAGAL) Program. Crowe does not disagree with management's assertion that such an alternative approach may be consistent with the cost sharing requirements appearing in the grant agreement and those requirements codified at 2 CFR Part 215.23, *Cost Sharing or Matching*, subject to the Grants Officer's concurrence. However, in the absence of supporting documentation having been provided for audit and recorded to the financial records contributing the Special Purpose Financial Statement, including AKF USA's SAGAL cost sharing records, Crowe has not modified the finding as presented in the draft report.

## SIGAR's Mission

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

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

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To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://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](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto: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](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202