

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 17-24 Financial Audit

Department of State's Afghanistan
Counternarcotics Program: Audit of Costs
Incurred by Sayara Media and Communications



SIGAR 17-24-FA/ACP

JANUARY
2017

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 3, 2013, the Department of State (State) awarded an \$8,219,255 cooperative agreement to Sayara Media and Communications (Sayara) to support State's Afghanistan Counternarcotics Program. The 2-year program sought to deliver organizational reform to the Afghan Ministry of Counternarcotics and increase the capacity of its staff. According to the agreement, Sayara was required to engage in activities such as collecting reliable information on the Afghan drug trade, initiating a public information and awareness campaign, and shifting ownership of program implementation, oversight, and responsibility to the ministry in the program's second year. After four modifications, the total funding amount to the agreement increased to \$12,678,720, and the period of performance was extended to November 6, 2017.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$9,719,662 in expenditures Sayara charged to the agreement for the period from April 4, 2013, through April 3, 2016. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Sayara's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any on potential fraud or abuse; (3) determine and report on whether Sayara has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Sayara's Special Purpose Financial Statement (SPFS). 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 Afghanistan Counternarcotics Program: Audit of Costs Incurred by Sayara Media and Communications

SIGAR 17-24-FA

WHAT THE AUDIT FOUND

Crowe identified three deficiencies in Sayara's internal controls, one of which was deemed significant, and three instances of noncompliance with the terms and conditions of the cooperative agreement and applicable regulations. For example, Crowe found that Sayara did not adjust its indirect cost rates to reflect actual costs, but instead charged indirect costs based on estimated rates. Crowe also found that Sayara did not use \$5,196 that State disbursed to it because Sayara did not design internal control procedures to monitor federal expenditures. Finally, Crowe found that in 9 of 11 instances tested, Sayara withdrew more federal funds than it needed to pay program costs, meaning Sayara did not fully expend Federal funds prior to drawing down additional funding or otherwise reduce the amount of Federal funds requested by the amount of federal cash on-hand.

As a result of these internal control deficiencies and instances of noncompliance, Crowe identified \$5,196 in total questioned costs consisting entirely of 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 agreement, applicable laws, or regulations. Crowe also calculated \$109 in interest earned on the excess funds Sayara did not use.

Category	Ineligible	Unsupported	Total Questioned Costs
Contractual	\$0	\$5,196	\$5,196
Totals	\$0	\$5,196	\$5,196

Crowe identified four prior audit reports pertinent to Sayara's performance under the cooperative agreement. However, because the reports did not have any findings or recommendations, no follow-up action was required.

Crowe issued a modified opinion on Sayara's SPFS because of the issues noted regarding Sayara's charges for indirect costs. Crowe concluded that indirect costs may be misstated in the statement.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$5,196 in questioned costs identified in the report.**
2. **Collect \$109 in interest from Sayara.**
3. **Advise Sayara to address the report's three internal control findings.**
4. **Advise Sayara 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 Sayara Media and Communications (Sayara) under a Department of State (State) cooperative agreement to support the Afghanistan Counternarcotics Program.¹ Crowe's audit reviewed \$9,719,662 in expenditures Sayara charged to the agreement from April 4, 2013, through April 3, 2016. Our contract with Crowe 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, \$5,196 in questioned costs identified in the report.**
- 2. Collect \$109 in interest from Sayara.**
- 3. Advise Sayara to address the report's three internal control findings.**
- 4. Advise Sayara to address the report's three noncompliance findings.**

The results of Crowe's audit are discussed in detail 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 Sayara's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Sayara's internal control or compliance with the cooperative agreement, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which 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.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-087)

¹ State awarded cooperative agreement number SINLEC13CA0034 to Sayara to support State's Afghanistan Counternarcotics Program. The program sought to deliver organizational reform to the Afghan Ministry of Counternarcotics and increase the capacity of its staff.



Sayara Media and Communications
Afghanistan Counternarcotics Program
Cooperative Agreement Number SINLEC13CA0034
Special Purpose Financial Statement
For the Period April 4, 2013, through April 3, 2016
(With Independent Auditor's Report Thereon)

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Transmittal Letter

December 30, 2016

Management of Sayara Media and Communications
House 134, Flower Street
District 4, Shar-e-Naw
Kabul, Afghanistan

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 Sayara Media and Communications ("Sayara") cooperative agreement with the United States Department of State funding the Afghanistan Counternarcotics 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 Sayara, 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 responses to the audit findings have been included as an appendix to the report.

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

Sincerely,



Melinda DeCorte, CPA, Partner
Crowe Horwath LLP

Summary

Background

On April 3, 2013, the U.S. Department of State (“DOS”) awarded cooperative agreement number SINLEC13CA0034 to Sayara Media and Communications (“Sayara”). The cooperative agreement included \$8,219,255 in Federal funding. The Federal funds were awarded to benefit the Afghanistan Counternarcotics Program activities from April 4, 2013, through April 3, 2015.

The purpose of the Afghanistan Counternarcotics Program was to deliver a two-year capacity-building and organizational reform program for the Afghan Ministry of Counternarcotics Directorate (“MCN”) of Strategic Communications and provincial directorates. In addition, the program was intended to carry out interpersonal communication, civil society outreach, and traditional media campaigns in key provinces affected by drugs. Further, the cooperative agreement indicated that the project was intended to develop a multi-track campaign that would map drivers of illicit engagement in the Afghan drug trade, identify potential “shifters” (i.e., individuals who can be persuaded to shift from illicit to licit cultivation), and engage target audiences through a combination of catered media products and capacity building programs for government officials, journalists, and civil society, while simultaneously integrating women’s issues in relation to the illicit narcotics trade.

Subsequent to the initial award, DOS modified the cooperative agreement four times. The modifications expanded the period of performance to extend through November 6, 2017. Correspondingly, authorized Federal funding was increased to \$12,678,720. Crowe was engaged to audit the period April 4, 2013, through April 3, 2016, encompassing the initial three program years. The total costs incurred within the audit period and subject to Crowe’s procedures were \$9,719,662.

Within the period of performance, Sayara reported various accomplishments. These accomplishments include, but are not limited to the following (unaudited by Crowe):

- Prepared and submitted a Target Audience Analysis (“TAA”) to analyze perceptions about the different pillars of the Afghanistan Counternarcotics Strategy;
- Produced multi-media campaigns based on recommendations from the TAA to be undertaken in coordination with the MCN and provincial departments of counternarcotics;
- Printed and installed numerous billboards in more than 10 provinces in Afghanistan;
- Collaborated with various television and radio stations to deliver program-related public service announcement broadcasts;
- Oversaw the distribution of print products, including comic books, school bags, notebooks, pens, pencils, posters, geometry boxes, tablecloths, balls, and sport uniforms; and
- Awarded grants to civil society organizations at the national and community levels to contribute to counternarcotics behavior change efforts in Afghanistan.

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 Sayara’s Afghanistan Counternarcotics 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 Sayara'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 cooperative agreement and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether Sayara 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 April 4, 2013, through April 3, 2016. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Special Purpose Financial Statement ("SPFS"). 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;
- 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 Sayara. 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 cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between Sayara 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 not 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 program and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess Sayara's compliance. Testing of indirect costs was limited to a) determining whether Sayara calculated indirect costs using the provisional rates approved by the Agreement Officer during the award negotiation process; and b) determining whether Sayara calculated and recorded adjustments between estimated indirect costs and final, actual indirect costs incurred as of the end of each fiscal year.

Regarding Audit Objective 4, Crowe inquired of Sayara and DOS staff 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 four prior audit reports, inclusive of Sayara's audited financial statements. No findings or recommendations were identified within the reports. Therefore, Crowe did not conduct any follow-up procedures with respect to the prior audit reports.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified three 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 cooperative agreement; and/or (4) questioned costs or other calculated financial penalties resulted from identified instances of noncompliance.

Crowe issued a modified opinion on the Special Purpose Financial Statement. Due to Sayara's not having calculated adjustments needed to align actual indirect costs incurred with those charged to the award using estimated indirect cost rates, the indirect costs charged may be misstated.

Crowe also reported on both Sayara's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement and the internal controls over compliance and financial reporting. One significant deficiency in internal control, two deficiencies 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 \$5,196 in costs

was questioned, and \$109 in imputed interest was calculated. 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 Sayara's financial performance under the cooperative agreement. Based on Crowe's communications with Sayara and DOS staff members, there were four prior audit reports. However, there were no findings or recommendations noted within the prior reports. 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	Excess Federal Cash Draws	\$0
2016-02	Unpaid Federal Transactions	\$5,196
2016-03	Indirect Cost Adjustments Not Completed	\$0
Total Questioned Costs		\$5,196

Summary of Management Comments

Management agreed with the facts underlying each of the findings and indicated that additional documentation will be provided regarding unpaid transactions and can be provided for additional review of the indirect cost rate calculation matter, if requested.

References to Appendices

The auditor's reports are supplemented by one appendix, **Appendix A**, which contains management's responses to the audit findings.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Management of Sayara Media and Communications
House 134, Flower Street
District 4, Shar-e-Naw
Kabul, Afghanistan

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 Sayara Media and Communications ("Sayara"), and related notes to the Statement, with respect to the Afghanistan Counternarcotics Program funded by cooperative agreement number SINLEC13CA0034, for the period April 4, 2013, through April 3, 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.

(Continued)

Basis for Qualified Opinion

Sayara did not calculate and process an adjustment to indirect costs that were recorded to the award using estimated indirect cost rates. In addition, we were unable to obtain an indirect cost rate calculation developed in accordance with allowable cost requirements codified at Title 48, Part 31 of the Code of Federal Regulations (48 CFR Part 31). Accordingly, the \$1,943,932 presented on the Statement does not reflect the actual indirect costs incurred and may include costs which are unallowable in accordance with 48 CFR Part 31. In the absence of an adjustment calculation that may be audited, we could not determine whether any adjustments might have been necessary with respect to the recorded indirect cost amounts.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, revenues earned, 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 Sayara 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 cooperative agreement number SINLEC13CA0034, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of Sayara, 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 December 28, 2016, on our consideration of Sayara's internal controls over financial reporting and compliance 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 Sayara's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

December 28, 2016
Washington, D.C.

Sayara Media and Communications
Special Purpose Financial Statement
SINLEC13CA0034
For the Period April 4, 2013, through April 3, 2016

	<u>Questioned Costs</u>					
	<u>Budget</u>		<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>						
Award No. SINLEC13CA0034 - U.S.						4
Department of State - CFDA	\$ 12,678,720	\$	9,719,662			
Program No. 19.704						
Total Revenue	\$ 12,678,720	\$	9,719,662			
<i>Costs Incurred</i>						
Personnel	\$ 4,218,252	\$	3,328,068			5
Fringe Benefits	177,924		156,078			
Travel	487,662		328,152			
Equipment	74,978		64,039			
Supplies	17,464		14,765			
Contractual	4,196,062		3,035,097		\$ 5,196	8, A
Construction	-		-			
Other Direct Costs	903,881		849,532			
Indirect Costs	2,602,497		1,943,932			10
Total Costs Incurred	\$ 12,678,720	\$	9,719,662			
Balance		- \$	-			6

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

Sayara Media and Communications
Notes to the Special Purpose Financial Statement
For the Period April 4, 2013, through April 3, 2016

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement Number SINLEC13CA0034 for the Afghanistan Counternarcotic Program for the period April 4, 2013, through April 3, 2016. Because the Statement presents only a selected portion of the operations of the Sayara Media and Communications ("Sayara"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of Sayara. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal cooperative agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the Code of Federal Regulations, 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. Pursuant to its *Internal Control Policies & Procedures*, Sayara utilizes the actual conversion exchange rate for purposes of translating transactions denominated in a foreign currency to United States dollars.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which Sayara Media and Communications is entitled to receive from the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs ("INL") for allowable, eligible costs incurred under the cooperative agreement during the period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the fourth modification to the final, INL-approved agreement adopted as a component of the cooperative agreement dated April 3, 2013.

Note 6. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract 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.

(Continued)

Note 7. Currency

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

Note 8. Subrecipients

Sayara entered into ten agreements with subrecipients for purposes of carrying out the Afghanistan Counternarcotic Program. All subrecipients and corresponding subaward amounts are shown below.

<u>Subrecipient</u>	<u>Subaward Amount</u>
ACSOR:	\$439,900
PARSA:	\$70,090
Kandahar Ulema Shura:	\$3,978
Panjawai District Shura:	\$2,414
Farah Journalist Union:	\$9,518
Trinkot Youths Cultural Association:	\$3,630
Women for Afghan Women:	\$3,231
Helmand Ulema Shura:	\$6,902
Radio Merman:	\$8,730
Voice Organization:	\$27,620
Total Subawards:	\$576,013

Note 9. Program Status

As of April 3, 2016, the program was ongoing. As noted within Amendment 001 to the cooperative agreement, the period of performance was extended to November 4, 2016. Amendment 004 dated May 5, 2016, further extended the period of performance to November 6, 2017.

Note 10. Indirect Costs

Indirect costs charged to the award were calculated based on the estimated amounts presented to INL during the proposal and pre-award process. As per the *Sayara Strategies Indirect Cost Policy Statement for Grant and Contracts* document, management and administrative costs are charged at a rate of 15 percent and operational overhead costs are charged at a rate of 10 percent.

Note 11. Taxes Payable to the Afghanistan Ministry of Finance

The Afghanistan Ministry of Finance ("MoF") granted Sayara an exemption from paying taxes on work performed under the cooperative agreement for the first two years of the program. By letter dated February 16, 2016, the MoF declined Sayara's request for the exemption to apply to the third program year and also specified that the previous exemption was issued in error. Sayara is currently challenging the decision reached by the MoF. Pending resolution of the matter, tax charges have not been recorded to the award. If Sayara is instructed that the February 2016 decision stands, as issued, then additional costs not presently contained on the Statement pertaining to Sayara's payment of taxes for the first three program years may be recorded to the award.

Note 12. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the April 4, 2013, through April 3, 2016, period covered by the Statement. Management has performed their analysis through December 28, 2016.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement¹

Note A. Unpaid Federal Transactions

Finding 2016-02 identified four transactions totaling \$5,196 that were not paid by Sayara. In the absence of a cash disbursement, the costs are not considered reimbursable.

¹ 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Management of Sayara Media and Communications
House 134, Flower Street
District 4, Shar-e-Naw
Kabul, Afghanistan

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 Sayara Media and Communications ("Sayara"), and related notes to the Statement, with respect to the Afghanistan Counternarcotics Program funded by cooperative agreement number SINLEC13CA0034, for the period April 4, 2013, through April 3, 2016. We have issued our report thereon dated December 28, 2016, within which we have qualified our opinion.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period April 4, 2013, through April 3, 2016, we considered Sayara'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 Sayara's internal control. Accordingly, we do not express an opinion on the effectiveness of Sayara's internal control.

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

(Continued)

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-03 that we consider to be a significant deficiency.

We identified two deficiencies in internal control that we communicated to management as identified in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-01 and 2016-02.

Sayara Media and Communications's Response to the Findings

Sayara's response to the findings identified in our audit are described in Appendix A to the audit report. Sayara'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 Sayara Media and Communications, 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

December 28, 2016
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Management of Sayara Media and Communications
House 134, Flower Street
District 4, Shar-e-Naw
Kabul, Afghanistan

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 Sayara Media and Communications ("Sayara"), and related notes to the Statement, with respect to the Afghanistan Counternarcotics Program funded by cooperative agreement number SINLEC13CA0034, for the period April 4, 2013, through April 3, 2016. We have issued our report thereon dated December 28, 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 Sayara.

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.

Sayara Media and Communications's Response to the Findings

Sayara's response to the findings identified in our audit are described in Appendix A to the audit report. Sayara'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.

(Continued)

Purpose of this Report

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

Restriction on Use

This report is intended for the information of Sayara, 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, flowing style.

Crowe Horwath LLP

December 28, 2016
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2016-01: Excess Federal Cash Draws

Deficiency and Noncompliance

Criteria: Sayara's cooperative agreement includes the following requirement with respect to payment requests submitted to the Government:

5. Payment Method

The Standard Form 270, Request for Advance or Reimbursement Payments, may be requested in the amounts required by the recipient to carry out the purpose of this award. The SF-270 must be certified by the appropriate person, numbered consecutively, and identified for the period for which payment is claimed. Each payment may be the amount of expenditures anticipated or actually incurred during the requested period, less any unexpended funds remaining from prior payments.

Title 22, Part 145.22(b) states that amounts advanced to a recipient "shall be limited to the minimum amounts needed and be timed to be in accordance with the actual immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project." Amounts advanced shall also be "as close as administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs."

Condition: During our analysis of Federal funds drawn down by Sayara relative to Federal costs incurred, we noted that Sayara did not fully expend Federal funds prior to drawing down additional funding or otherwise reduce the amount of Federal funds requested by the amount of Federal cash on-hand.

We also examined eleven Federal cash advances to identify instances in which excess Federal cash had been drawn down; excess Federal cash exists when the cumulative amount of Federal funds drawn down exceeds the immediate cash needed to pay costs incurred for program or project purposes. Sayara held excess cash in nine of the eleven instances tested. Excess cash amounts ranged from \$2 to \$17,516. Using interest rates prescribed by the U.S. Department of the Treasury, interest on the excess cash was calculated as \$109.

Questioned costs: None. However, \$109 in imputed interest was calculated as a result of the matter noted above.

Effect: The Government disbursed more funds to Sayara than were required to meet immediate cash needs thereby reducing the amount of funds on which the Government could earn interest.

Cause: Sayara's Federal cash management procedures do not provide guidance to staff regarding the approach to be taken when actual cash needs are less than amounts projected at the time of Sayara's payment request submission.

Recommendation: We recommend that Sayara:

1. Modify procedures in the "Grant Accounting and Management" portion of its *Internal Control Policies and Procedures* on how to develop Federal advance payment requests to meet the amount of projected cash needs by the amount of Federal cash on-hand prior to submission; and
2. Remit \$109 to the Federal Government.

(Continued)

Finding 2016-02: Unpaid Federal Transactions

Deficiency and Non-Compliance

Criteria: Sayara's cooperative agreement includes the following requirement with respect to payment requests submitted to the Government:

5. Payment Method

The Standard Form 270, Request for Advance or Reimbursement Payments, may be requested in the amounts required by the recipient to carry out the purpose of this award. The SF-270 must be certified by the appropriate person, numbered consecutively, and identified for the period for which payment is claimed. Each payment may be the amount of expenditures anticipated or actually incurred during the requested period, less any unexpended funds remaining from prior payments.

Condition: Of 105 transactions selected for testing, we noted that 10 transactions totaling \$11,359 in direct costs were unpaid. Six transactions were paid subsequent to the audit period. The remaining four transactions (sample items 14, 27, 59, and 69) totaling \$5,196 remained unpaid.

Questioned costs: \$5,196

Effect: Government funds intended to be used for reimbursement of costs incurred under the program may have been utilized for other purposes.

Cause: Sayara did not detect the lack of payments or otherwise design internal control procedures to monitor aging of the Federal expenditures.

Recommendation: We recommend that Sayara either disburse the payments to the applicable vendors or otherwise reimburse the Government \$5,196. We further recommend that Sayara modify procedures in the *Internal Control Policies & Procedures* to specifically address the monitoring of aging payables that have been included within the projected cash needs used to develop advance payment requests.

(Continued)

Finding 2016-03: Indirect Cost Adjustments Not Completed

Significant Deficiency and Noncompliance

Criteria: The commercial entity cost principles codified at 48 CFR Subpart 31.2 applicable to Sayara as per its cooperative agreement include the following requirements applicable to allowable costs and the composition of total costs for a Federal award:

31.201–1 Composition of total cost.

(a) The total cost, including standard costs properly adjusted for applicable variances, of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred, plus any allocable cost of money pursuant to 31.205–10, less any allocable credits. In ascertaining what constitutes a cost, any generally accepted method of determining or estimating costs that is equitable and is consistently applied may be used.

(b) While the total cost of a contract includes all costs properly allocable to the contract, the allowable costs to the Government are limited to those allocable costs which are allowable pursuant to Part 31 and applicable agency supplements.

31.201–2 Determining allowability.

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

Condition: Sayara calculated indirect costs to be charged to the cooperative agreement based on estimated rates provided to the State Department at the time of proposal submission. Subsequent to that period, Sayara did not re-calculate the indirect cost rates using the new base periods (i.e., fiscal years) or otherwise process indirect cost adjustments such that indirect costs charged to the award reflect only actual indirect costs incurred up to the 15 percent management and administrative and 10 percent overhead cost caps - or 25 percent in total indirect costs.

In addition, Sayara did not provide schedules showing the calculation of indirect cost rates, adjusted for compliance with Federal regulations, for each completed accounting period. Therefore, we could not test whether or not additional cost elements were included in the calculation above and beyond those approved by the State Department or that the cost elements were allowable and eligible for reimbursement. Total indirect costs charged to the cooperative agreement are \$1,943,932.

We were able to obtain copies of Sayara's entity-wide overhead rate calculations for the years ended December 21, 2013, December 21, 2014, and December 21, 2015. Using these documents, we calculated actual indirect cost rates after excluding indirect cost accounts that are categorically unallowable or that otherwise did not contain sufficient detail to assess allocability to a Federal award.² The purpose of the analysis was to assess the likelihood that Sayara's actual indirect costs were less than the 25 percent total indirect cost. Based on our analysis, indirect cost rates for the three fiscal years appear to have exceeded 25 percent such that we did not identify any questioned costs.

We note, however, that in the absence of a rate calculation separately presenting the calculation of rates for overhead and management and administrative amounts, the separate limits may have been exceeded in part, but not in relation to the overall 25 percent. Further, the information available to us does not permit identification of potential inconsistencies in the assignment of cost such that those accounts with both indirect and direct costs recorded or in which a cost may have been inappropriately classified may require further modification. Accordingly, additional analysis is required to conclude that the indirect cost rates are fully consistent with the provisions of the commercial entity cost principles.

² Accounts excluded for purposes of the Crowe analysis included External Services, Printing and Publications, Business Development Expenses, Interest on Loan, Bad Debts, Casual Benefits, and Exchange Gain and Loss.

Questioned costs: No questioned costs were identified based on the information available for analysis to Crowe. However, as noted within the *Condition*, additional analysis is required for a complete assessment of the indirect cost rates. Such an analysis was beyond the scope of Crowe's audit. Therefore, questioned costs are indeterminable.

Effect: The Government may have been overcharged for indirect costs or otherwise may have funded unallowable indirect costs.

Cause: Sayara understood that the rates approved during the proposal process could be applied throughout the award period and did not require true-up or adjustment to actuals. In addition, Sayara's *Indirect Cost Allocation* procedure does not expressly address requirements applicable to the commercial entity cost principles, including true-up calculations.

Recommendation: We recommend that Sayara take the following actions:

1. Produce adequate supporting documentation for the calculation of indirect cost rates that reconcile to its audited financial statements, including adjustments to the indirect cost pool for the exclusion of unallowable costs, and calculate a true-up adjustment, if necessary; and
2. Modify the *Indirect Cost Allocation* policy to include procedures for calculation of true-up adjustments so as to help ensure that actual indirect costs are recorded on Government-funded projects going forward.

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

Through discussion with Sayara Media and Communications and representatives of the U.S. Department of State, we identified and reviewed four prior audit reports 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





Sayara Strategies Responses to the Audit Findings

Sayara Strategies remains highly committed to transparency and accountability in all of our business activities; contracts, grants and cooperative agreements, and we have taken special care to ensure that we abide by all relevant laws and regulations from host governments. Sayara has developed an internal control policy and procedures manual to ensure compliance with all grants and donor requirements. Internal control policy and procedural best practices were drawn up in accordance with the Generally Accepted Accounting Principles. It is also Sayara policy to invite an established external audit firm to conduct an annual external audit to ensure that Sayara is in compliance with all rules, regulations, and established parameters. Sayara takes seriously a host of relevant issues, including preventing conflicts of interest, the need for strict monitoring of activities, and the need to ensure segregation of duties on all procurement and project management process to minimize and prevent opportunities for fraud and abuse of project funds and to ensure the delivery of high quality services to our clients. Sayara almost exclusively provides direct deposits to the bank accounts of vendors; with almost ninety-eight percent of disbursements transiting through established banks to ensure the highest level of financial transparency with project funds.

Please find the following responses to your findings from the draft audit report.

Finding 2016-01: Excess Federal Cash Draws

Sayara agrees to remit \$109 to the Federal Government; however, the projected cash requests for the upcoming periods would still have deficiencies than the actual spending.

Finding 2016-02: Unpaid Federal Transactions

Questioned costs: \$5,196

The amount of \$5,196 is the outstanding payable amount to our vendors, and Sayara will ensure payment to relevant vendors as soon as it receives receive the proper invoices and supporting documentation, as per our procedural norms. Sayara will conduct a rigorous follow-up on the outstanding payable amounts and will send the payment confirmation as soon the payments are made.

Finding 2016-03: Indirect Cost Adjustments

Sayara has calculated the actual indirect cost rate for each year; however, Sayara's actual indirect cost rate is higher than the agreed, and has an approved 25 percent indirect cost rate. As such, we had no room for the adjustment. Sayara also has all required supporting documentation for indirect costs accrued during the period and can present those during any future audit. We will be more than happy to use any specific format for the true-up of indirect cost rate if required. In the meantime, Sayara has agreed to review the indirect cost allocation policy and will bring the necessary changes as required.

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;
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- prevent fraud, waste, and abuse; and
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- 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