

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

SIGAR 24-37 Financial Audit

## State's Weapons and Ammunition Disposal Program in Afghanistan: Audit of Costs Incurred by The HALO Trust USA Inc.

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



SEPTEMBER  
2024

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On August 10, 2016, the U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State) awarded a 3-year, \$1,250,000 grant to The HALO Trust USA Inc. (HALO) in support of its Weapons and Ammunition Disposal program in Afghanistan. The grant was intended to assist the government and people of Afghanistan by enhancing security through the detection, removal, and disposal of unwanted ammunition, with the overall objective to seek and destroy 300 metric tons of ammunition. State modified the grant 7 times. The modifications increased the grant amount to \$6,236,207, and extended the period of performance through March 31, 2021.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$2,500,000 in costs charged to the grant from April 1, 2019, through the close-out period ending February 23, 2022, the date funds were de-obligated. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in HALO'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 HALO has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of HALO's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

September 2024

## State's Weapons and Ammunition Disposal Program in Afghanistan: Audit of Costs Incurred by The HALO Trust USA Inc.

SIGAR 24-37-FA

### WHAT SIGAR FOUND

Conrad identified two material weaknesses, two significant deficiencies, and two deficiencies in HALO's internal controls, and six instances of noncompliance with the terms of the grant. For example, Conrad noted multiple issues with HALO's allocation of shared costs. In 51 instances, HALO improperly used budget estimates, which goes against federal guidelines for how to allocate shared costs to the grant. In 3 instances, HALO allocated shared costs without methodological support. In 77 transactions tested, HALO lacked documentation demonstrating that employees actually worked on the program to which their time was charged. HALO was notified of the internal control deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Conrad identified \$335,256 in total questioned costs, consisting of \$200,157 in ineligible costs—costs prohibited by the award and applicable laws and regulations, and \$135,099 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel	\$151,809	\$104,902	\$256,711
Fringe Benefits	\$14,280	\$4,149	\$18,429
Travel	\$4,309	\$2,114	\$6,423
Supplies	\$913	\$11,414	\$12,327
Other	\$10,650	\$238	\$10,888
Indirect Costs	\$18,196	\$12,282	\$30,478
<b>Total Costs</b>	<b>\$200,157</b>	<b>\$135,099</b>	<b>\$335,256</b>

Conrad identified one prior audit report, which contained two findings and accompanying recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. Conrad conducted follow-up procedures and concluded that HALO did not take adequate corrective action on one of the findings related to employee payroll allocation as it was repeated in the current audit.

Conrad qualified their opinion on HALO's SPFS based on the material amount of the total questioned costs, deficiencies in internal controls, and instances of non-compliance.

### WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$335,256 in questioned costs identified in the report.
2. Advise HALO to address the report's six internal control findings.
3. Advise HALO to address the report's six noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

September 10, 2024

The Honorable Antony J. Blinken  
Secretary of State

Mr. Stanley L. Brown  
Acting Assistant Secretary,  
Bureau of Political-Military Affairs

We contracted with Conrad LLP (Conrad) to audit the costs incurred by The HALO Trust USA Inc. (HALO) under a grant from the U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State) in support of its Weapons and Ammunition Disposal program in Afghanistan.<sup>1</sup> The grant was intended to assist the government and people of Afghanistan by enhancing security through the detection, removal, and disposal of unwanted ammunition, with the overall objective to seek and destroy 300 metric tons of ammunition. Conrad reviewed \$2,500,000 in costs charged to the grant from April 1, 2019, through February 23, 2022. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$335,256 in questioned costs identified in the report.**
- 2. Advise HALO to address the report's six internal control findings.**
- 3. Advise HALO to address the report's six noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on HALO's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, May 17, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-284)

<sup>1</sup> The grant number is S-PMWRA-16-GR-1053.

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053  
Awarded by the United States Department of State, Bureau of Political-Military Affairs,  
Office of Weapons Removal and Abatement  
In support of the Weapons and Ammunition Disposal in Afghanistan

For the Period of April 1, 2019, through February 23, 2022

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May 17, 2024

Board of Directors  
The HALO Trust USA, Inc.  
Washington, DC

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

Conrad LLP (referred to as Conrad or we) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of The HALO Trust USA, Inc.'s (HALO US) Special Purpose Financial Statement under Grant Agreement No. S-PMWRA-16-GR-1053 awarded by the United States Department of State (DoS) for the period April 1, 2019 through February 23, 2022, in support of the Weapons and Ammunition Disposal Program in Afghanistan.

On February 2, 2024, we provided SIGAR with a draft report reflecting our audit procedures and results. HALO received a copy of the report on April 5, 2024 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and HALO. Additionally, HALO's responses and Conrad's corresponding rebuttals are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in blue ink that reads "S Perera". The signature is written in a cursive style with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
Weapons Removal and Abatement

in support of the Weapons and Ammunition Disposal program in Afghanistan  
For the Period of April 1, 2019, through February 23, 2022

#### **Background**

On August 10, 2016, the United States Department of State (DoS), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) awarded Grant Agreement No. S-PMWRA-16-GR-1053 (Grant Agreement) to The HALO Trust USA, Inc. (HALO US) in support of the Weapons and Ammunition Disposal in Afghanistan Program. HALO US directly passed 100% of the grant's funding to The HALO Trust United Kingdom (HALO UK), a charity registered in Scotland, England, and Wales. HALO UK was the sole sub-recipient under the grant, to carry out the Program goals and objective. Both HALO UK and HALO US are subsidiaries of the HALO Trust (Hazardous Area Life-support Organization). For the purpose of this report, both HALO US and HALO UK are collectively referred to as HALO.

The goal of the grant was to assist the government and people of Afghanistan in the disarmament process through the collection and destruction of weapons and ammunition with the overall objective of destroying 300 metric tons of ammunition. The grant specified the project would assist the people of Afghanistan through:

- Detecting and removing ammunition to restrict the flow of explosives.
- Supporting the Afghan authority's establishment of ammunition storage and providing support in the disposal of unwanted ammunition.
- Enhancing security in support of the Government of the Islamic Republic of Afghanistan.

The initial award amount was \$1,250,000 funded by DoS PM/WRA, for the period of performance from April 1, 2016, through March 31, 2017, with two (2) option years extending the period of performance through March 31, 2019, when exercised. Seven (7) amendments were made to the Grant Agreement which impacted the total award amount and extended the period of performance. See the *Summary of Grant Agreement and Summary of Amendments* below.

#### **Summary of Grant Agreement**

Grant Agreement Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Amendments	Final Approved Budget (\$)	End Date
S-PMWRA-16-GR-1053*	\$1,250,000	04/01/16	03/31/17	7	\$6,236,207	03/31/21 <sup>1</sup>

\* Indicates the grant agreement is a close-out.

<sup>1</sup> DoS issued Amendment No. M007 on February 23, 2022 to de-obligate funds.

**The HALO Trust USA, Inc.**

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**Summary of Amendments**

<b>Amendment No.</b>	<b>Description of Amendment</b>	<b>Effective Date</b>	<b>New Budget Amount</b>
01	Increased funding by \$1,250,000	3/16/2017	\$ 2,500,000
02	Administrative correction to de-obligate previous \$1,250,000 from previous modification	3/24/2017	1,250,000
03	Exercised Option Year 1 to extend period of performance till March 31, 2018, and award additional \$1,250,000	4/27/2017	2,500,000
04	Exercised Option Year 2 to extend period of performance till March 31, 2019, and award additional \$1,250,000	5/10/2018	3,750,000
05	Exercised Extension of period of performance till March 31, 2020, and award additional \$1,250,000	3/22/2019	5,000,000
06	Extension of period of performance till March 31, 2021, and award additional \$1,250,000	3/30/2020	6,250,000
07	De-obligating funds in leftover under Amendment 05 by \$13,793 for closeout	2/23/2022	\$ 6,236,207

**Work Performed**

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the Grant Agreement, as mentioned above, of HALO's Special Purpose Financial Statement (SPFS) for revenue received and costs incurred the Program totaling \$2,500,000 for the period April 1, 2019, through the close-out period ending February 23, 2022.

**Objectives, Scope, and Methodology**

**Audit Objectives**

The objectives of the audit of the aforementioned Grant Agreement include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether HALO's SPFS for the grant agreement presents fairly, in all material respects, the revenues received, costs

(Continued)



## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

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incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the grant agreement and generally accepted accounting principles or other comprehensive basis of accounting.

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

### **Scope**

The scope of this close-out audit included all costs incurred during the period of April 1, 2019, through February 23, 2022, totaling \$2,500,000 under the Grant Agreement. Our testing of the indirect cost charged to the Grant Agreement was limited to determining that the indirect cost was calculated using the correct de minimis rate of 10%, as approved in the Grant Agreement.

### **Audit Methodology**

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

#### **Entrance Conference**

An entrance conference was held on July 20, 2023, with representatives of HALO US, HALO UK, Conrad, SIGAR, and DoS participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of the audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

#### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of HALO. The scope of our audit includes HALO's management and employees, internal and external factors that affect operations, and accounting policies and

(Continued)

## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

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procedures. We gained an understanding of HALO through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:

- Grant Agreement and modifications;
  - Any regulations that are specific to the Grant Agreement's requirements, such as, 2 CFR 200, 2 CFR 600, and U.S. Department of State Standard Terms and Conditions.
  - Audited financial statements;
  - Previous SIGAR and DoS financial audit reports
  - Close-out requirements and evidence supporting close-out procedures performed.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

#### Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Grant Agreement, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, reasonable, and allocable to the Grant Agreement;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the de minimis rate of 10%, as approved in the Grant Agreement to ensure that the rate was accurately applied.

#### Internal Controls Related to the Grant Agreement

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

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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Compliance with the Grant Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether HALO complied, in all material respects, with the Grant Agreement requirements, 2 CFR 200, 2 CFR 600, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Grant Agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from HALO and reviewed these reports to determine if there were any findings and recommendations that could have a potential impact on this audit. We also conducted a search online of various governmental websites including SIGAR ([www.sigar.mil](http://www.sigar.mil)), United States Department of State, and other Federal agencies, to identify previous engagements that could have a material effect on HALO's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Our review procedures included holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. See the *Status of Prior Audit Findings* section on page 51.

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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Exit Conference

An exit conference was held on January 17, 2024, via conference call. Participants included representatives from Conrad, HALO US, HALO UK, SIGAR, and DoS. During the exit conference, we discussed the preliminary results of the audit and reporting process.

**Summary of Results**

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

Auditor's Opinion on the SPFS

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

We identified \$335,256 in total questioned costs, which comprised of \$200,157 in ineligible costs and \$135,099 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Grant Agreement's provisions or applicable laws and regulations, or not related to the Grant Agreement. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

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

Internal Controls

Our audit identified six (6) internal control findings. Two (2) internal control findings are considered material weaknesses, two (2) internal control findings are considered to be significant deficiencies and two (2) internal control finding are considered to be deficiencies. See *Independent Auditor's Report on Internal Control* on page 23.

Compliance

The results of our testing identified six (6) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 25.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053

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*Government Auditing Standards.* HALO did not identify any instances of alleged fraud that could have a potential impact on the Program and the SPFS. As such, there are no further communications warranting additional consideration.

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Matter</b>	<b>Ineligible Costs</b>	<b>Unsupported Costs</b>	<b>Cumulative Questioned Cost</b>
2024-01	Non-compliance and Internal Control – Material Weakness	Improper and unsupported allocation methodology/support for costs charged to the Program.	\$ 196,555	\$ 3,712	\$ 200,267
2024-02	Non-compliance and Internal Control – Material Weakness	Inadequate Timekeeping Policy	-	117,388	317,655
2024-03	Non-compliance and Internal Control – Significant Deficiency	Costs associated with individuals or payments were made to individuals who are not employees or direct suppliers of the Program.	-	13,366	331,021
2024-04	Non-compliance and Internal Control – Significant Deficiency	Missing or insufficient procurement documentation.	3,445	-	334,466

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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2024-05	Non-compliance and Internal Control – Deficiency	Lack of adherence to HALO UK's travel policies.	-	633	335,099
2024-06	Non-compliance and Internal Control – Deficiency	Program supplies costs were erroneously charged to the Program.	157	-	335,256
<b>Total Questioned Costs</b>			<b>\$ 200,157</b>	<b>\$ 135,099</b>	<b>\$ 335,256</b>

**Review of Prior Findings and Recommendations**

Based on our request and search of prior engagements pertinent to HALO’s activities under the Grant Agreement, we identified one (1) prior engagement with two (2) findings and accompanying recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. Based on our review, HALO did not take adequate corrective action on one (1) finding and the associated recommendations. See *Status of Prior Audit Findings* on page 51 for a detailed description of the prior findings and recommendations.

**Summary of HALO’s Responses to Findings**

The following represents a summary of the responses provided by HALO to the findings identified in this report. The complete responses received can be found at *Appendix A* starting at page 52 of this report.

**HALO US Responses:**

**Finding 2024-01:**

HALO US stated that after the two previous SIGAR audits, it had developed additional oversight to monitor its subcontractor’s financial standard operating procedures and financial systems.

**Finding 2024-02:**

HALO US stated it will continue to validate its subcontractor’s adherence to 2 CFR 200 requirements.

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Finding 2024-03:**

HALO US stated that during the audit period, Afghanistan experienced a rapid deterioration in security, so HALO USA did not perform field visits and relied on remote oversight procedures of the subrecipient.

**Finding 2024-04:**

HALO US stated they carry out remote oversight of HALO UK in addition to subrecipient monitoring visits to a standard form, including adherence to procurement policy and procedures.

**Finding 2024-05:**

HALO US stated they carry out remote oversight of HALO UK in addition to subrecipient monitoring visits to a standard form, including adherence to travel policy and procedures.

**Finding 2024-06:**

HALO US stated that they will continue to validate HALO UK's adherence to 2 CFR 200, through remote sampling of transaction data and sub-recipient monitoring procedures.

**HALO UK Responses:**

**Finding 2024-01:**

HALO UK stated it had implemented a cost share methodology with approval from the cognizant agency and all expenditures allocated to the grants are based on actual transaction cost. HALO UK commented on each recommendation in this finding. HALO UK stated that either the costs were 100% allocable to the program, or they had been allocated using an adequate allocation methodology.

**Finding 2024-02**

HALO UK management stated they implemented a cost share methodology with prior written approval issued by the United States Department of State. HALO UK commented on each cost category under question in the Finding. HALO UK indicated that attendance records for all direct delivery teams are in Afghanistan. HALO UK management stated that they can share the supporting documentation which demonstrates that the questioned costs are allocated to the grant based on proportional benefit which is in line with HALO UK's procurement and financial policies. Additionally, HALO UK stated that support staff working centrally who cannot be directly attributed to either a donor or work stream are not linked directly to a grant, program, mine location, funding agency, or any other metric because they are in place to support a holistic program funded by multiple donors across multiple locations. Support staff at this scale are therefore budgeted and actual costs charged to grants on a proportionate basis, over the duration of the grant across the pool of donors funding activities.

**Finding 2024-03**

HALO UK agreed with the issue identified in Finding 2024-03 regarding fringe benefits costs but disagreed with the conclusions related to payments made to a non-employee for supplies and were not paid directly to the vendor.

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Finding 2024-05**

HALO UK acknowledged they were missing documentation for flight tickets and other travel costs, but asserted they provided alternative documentation, within their global travel monitoring system, supporting the charges.

HALO UK indicated that documentation supporting local travel is unavailable. They noted these costs relate to employee's travel to their homes at the end of the monthly cycle. HALO UK stated that travel to remote villages is achieved with informal travel links with no way to produce formal invoices or proof of payment.

HALO UK acknowledged the issue identified in Finding 2024-05 related to travel costs incurred for an international staff employee's partner was an ineligible cost and is not reimbursable under the program. HALO UK stated they have an accompanying post policy which states the cost was eligible for reimbursement. While the employee - whose partner was travelling with them - was not funded through this Program, the employee worked full time in Afghanistan. HALO UK stated they will redesign their travel approval process to ensure that donor approval is acquired for spouse or partner travel.

**Finding 2024-06**

HALO UK acknowledged the issue identified in Finding 2024-06 regarding the overcharge of winter coats to the Program. HALO UK acknowledged that 80 winter coats were purchased under this Program, which supported 67 persons. They asserted the excess coats were made available to employees to ensure there were enough dry coats during the cold and damp winter conditions. Additionally, HALO UK has revised its financial operating procedures to ensure that transactions are fully reviewed prior to being released into the general ledger.

(Continued)





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

Board of Directors  
The HALO Trust USA, Inc.  
Washington, D.C.

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

### Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of the Hazardous Area Life-support Organization Trust USA, Inc.'s (HALO) and the related notes to the Special Purpose Financial Statement, with respect to the Grant Agreement No. S-PMWRA-16-GR-1053 (Grant Agreement) awarded by the United States Department of State (DoS) in support of the Weapons and Ammunition Disposal in Afghanistan, for the period of April 1, 2019 through February 23, 2022.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of April 1, 2019 through February 23, 2022, in accordance with the terms of the Grant Agreement and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction.

### Basis for Qualified Opinion

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

We identified \$335,256 in aggregated questioned costs resulting from the material weakness, and significant deficiencies in internal controls and non-compliance with the terms and conditions of the Agreement. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

### Basis of Presentation and Accounting

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

(Continued)

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

### **Responsibilities of Management for the Special Purpose Financial Statement**

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

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

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

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

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

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 17, 2024 on our consideration of HALO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Grant Agreement, 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 HALO's internal control over financial reporting and compliance.

## **Restriction on Use**

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



Lake Forest, California  
May 17, 2024

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan  
Program

For the Period of April 1, 2019, through February 23, 2022

**Special Purpose Financial Statement**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
<b>Grant Agreement No.</b>						
<b>S-PMWRA-16-GR-1053</b>	\$2,500,000	\$2,500,000	\$ -	\$ -	\$ -	(4)
Total revenues	<u>\$2,500,000</u>	<u>\$2,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	1,487,872	1,506,974	151,809	104,902	256,711	(A)
Fringe Benefits	53,220	50,071	14,280	4,149	18,429	(B)
Travel	27,900	28,321	4,309	2,114	6,423	(C)
Supplies	616,647	606,567	913	11,414	12,327	(D)
Other	89,808	83,854	10,650	238	10,888	(E)
Indirect Costs	<u>224,553</u>	<u>224,213</u>	<u>18,196</u>	<u>12,282</u>	<u>30,478</u>	(F)
Total costs incurred	<u>\$2,500,000</u>	<u>\$2,500,000</u>	<u>\$ 200,157</u>	<u>\$ 135,099</u>	<u>\$ 335,256</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

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

(Continued)

## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan Program

For the Period of April 1, 2019, through February 23, 2022

#### Notes to Special Purpose Financial Statement<sup>1</sup>

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##### (1) **Status and Operation**

The HALO Trust USA, Inc., is a not-for-profit 501 c3 corporation organized for the purpose of removal of the debris of war in various areas of the world, incorporated in the State of Maryland. The HALO Trust USA, Inc. is supported primarily from grants by the United States Department of State and other agencies. The HALO Trust USA, Inc., also receives support from foundations, individuals, and other organized charities.

The HALO Trust USA, Inc. provides grants to The HALO Trust (a charity registered in Scotland, and England and Wales) to fund humanitarian response programs, one of which is S-PMWRA-16-GR-1053, the grant under this audit.

##### (2) **Summary of Significant Accounting Policies**

###### *a. Basis of Presentation*

The information in this SPFS is presented in accordance with requirements specified by Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned agreement.

###### *b. Basis of Accounting*

The SPFS reflects the revenues received and expenses incurred under the grant agreements issued by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement. The SPFS is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). It has been prepared on the cash basis of accounting. Under the cash basis of accounting revenues are recognized when received.

The SPFS consolidates segregated SPFS's which show The HALO Trust USA, Inc., receiving the revenue from the donor, being sub-awarded in full to The HALO Trust, and The HALO Trust as the subrecipient implementing the activities and incurring the expenditures required to deliver these activities. The segregated SPFS is included at Annex A and B.

###### *c. Currency*

The Special Purpose Financial Statement is presented in United States Dollars. For purposes of preparing the SPFS, expenditures are recorded in US dollars (USD), or UK pounds sterling (GBP). The HALO Trust USA, Inc. translates this expenditure to USD based upon monthly exchange rates published by the European Commission, in line with recognized accounting

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of The HALO Trust USA Inc.

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan Program

For the Period of April 1, 2019, through February 23, 2022

**Notes to Special Purpose Financial Statement<sup>1</sup>**

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practice. Afghanis (AFS) are expended at the rate the bank formally exchanges the USD to AFS.

The rates used by The HALO Trust USA, Inc. for the translation of expenditure to the GBP are:

				<b>Apr-19</b>	<b>May-19</b>	<b>Jun-19</b>
<b>GBP/USD</b>				1.311	1.292	1.266
	<b>Jul-19</b>	<b>Aug-19</b>	<b>Sep-19</b>	<b>Oct-19</b>	<b>Nov-19</b>	<b>Dec-19</b>
<b>GBP/USD</b>	1.272	1.216	1.223	1.232	1.289	1.292
	<b>Jan-20</b>	<b>Feb-20</b>	<b>Mar-20</b>	<b>Apr-20</b>	<b>May-20</b>	<b>Jun-20</b>
<b>GBP/USD</b>	1.313	1.310	1.289	1.241	1.240	1.229
	<b>Jul-20</b>	<b>Aug-20</b>	<b>Sep-20</b>	<b>Oct-20</b>	<b>Nov-20</b>	<b>Dec-20</b>
<b>GBP/USD</b>	1.233	1.300	1.332	1.286	1.294	1.333
	<b>Jan-21</b>	<b>Feb-21</b>	<b>Mar-21</b>			
<b>GBP/USD</b>	1.360	1.365	1.416			

The rate used by The HALO Trust USA, Inc. for Afghanis to USD are those shown on the Payment Vouchers (PVs) and are the rates the bank gave The HALO Trust USA, Inc. for the sale of USD.

**(3) Variances**

None of the over or under-expenditures for the project exceed those variances allowable by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement.

S-PMWRA-16-GR-1053 full grant period was August 11, 2016, through March 31, 2022, for a total value of \$6,236,206.88.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of The HALO Trust USA Inc.

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan  
Program

For the Period of April 1, 2019, through February 23, 2022

**Notes to Special Purpose Financial Statement<sup>1</sup>**

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**(4) Revenues**

Revenues on the SPFS represent the amount of funds that have been reimbursed to The HALO Trust USA, Inc., from the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for allowable, eligible costs incurred under the contract during the period of performance by The HALO Trust USA, Inc.

**(5) Cost Incurred by Budget Category**

The budget categories presented, and associated amounts, reflect the budget line items presented within the final Department of State Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement approved budget for the period of this grant under audit, adopted as a component of the proposal and any amendments made to it.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of The HALO Trust USA Inc.

## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan  
Program

For the Period of April 1, 2019, through February 23, 2022

#### **Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>**

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##### **(A) Personnel**

HALO reported a total of \$1,506,974 for Personnel for the period of April 1, 2019, through February 23, 2022.

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

- HALO calculated the allocation based on budget and not actual costs incurred and did not provide sufficient timesheets or supporting documentation for actual costs resulting in ineligible Personnel costs of \$151,809. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where sufficient supporting documentation for the allocation base was not provided. As such, we were unable to tie or recalculate the allocation methodology to ensure allocation was applied accurately resulting in unsupported Personnel costs of \$787. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where a timesheet, attendance sheet, or voucher form provided by HALO did not specify what project the staff was working on to justify why Personnel costs were charged at 100% to the Program, resulting in unsupported Personnel costs of \$104,115. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned Personnel costs of \$256,711, consisting of \$151,809 in ineligible costs and \$104,902 in unsupported costs.

##### **(B) Fringe Benefits**

HALO reported a total of \$50,071 for Fringe Benefits for the period of April 1, 2019, through February 23, 2022.

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

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

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

(Continued)



## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan Program

For the Period of April 1, 2019, through February 23, 2022

#### Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

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ineligible Fringe Benefit costs of \$12,735. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

- Costs incurred lacked sufficient documentation to support the costs charged to the Program, resulting in unsupported Fringe Benefit costs of \$4,149. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs incurred where procurement documentation was not provided, resulting in ineligible Fringe Benefit costs of \$14,280. See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report. Please note that of this amount \$12,735 was also questioned in **Finding 2024-01**. As such, the net amount of \$1,545 is presented as the questioned costs in the SPFS.

The issues identified above resulted in total questioned Fringe Benefits costs of \$18,429, consisting of \$14,280 in ineligible costs and \$4,149 in unsupported costs.

#### (C) Travel

HALO reported a total of \$28,321 for Travel for the period of April 1, 2019, through February 23, 2022.

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

- HALO calculated the allocation based on budget and not actual costs incurred and did not provide sufficient timesheets or supporting documentation for actual costs resulting in ineligible Travel costs of \$3,992. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where a timesheet, attendance sheet, or voucher form provided by HALO did not specify what project the staff was working on to justify why Travel costs were charged at 100% to the Program, resulting in unsupported Travel costs of \$910. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs incurred lacked sufficient documentation to support the costs charged to the Program, resulting in unsupported Travel costs of \$629. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.

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

## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan Program

For the Period of April 1, 2019, through February 23, 2022

#### **Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>**

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- Costs incurred where procurement documentation was not provided, resulting in ineligible Travel costs of \$4,183. See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report. Please note that of this amount \$3,886 was also questioned in **Finding 2024-01**. As such, the net amount of \$317 is presented as the questioned costs in the SPFS.
- Costs incurred where Travel costs did not adhere to HALO's Travel policies and proper documentation to support amount of costs charged to the Program, resulting in unsupported Travel costs of \$826. See **Finding No. 2024-05** in the *Schedule of Findings and Questioned Costs* section of this report. Please note that of this amount \$251 was also questioned in **Finding 2024-02**. As such, the net amount of \$575 is presented as the questioned costs in the SPFS.

The issues identified above resulted in total questioned Travel costs of \$6,423, consisting of \$4,309 in ineligible costs and \$2,114 in unsupported costs.

#### **(D) Supplies**

HALO reported a total of \$606,567 for Supplies for the period of April 1, 2019, through February 23, 2022.

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

- Costs where supporting documentation for the allocation methodology of costs charged to the Program was not provided, resulting in unsupported Supplies costs of \$2,350. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where a timesheet, attendance sheet, or voucher form provided by HALO did not specify what project the staff was working on to justify why Supplies costs were charged at 100% to the Program, resulting in unsupported Supplies costs of \$1,691. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs incurred lacked sufficient documentation to support the costs charged to the Program, resulting in unsupported Supplies costs of \$7,373. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.

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

## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan Program

For the Period of April 1, 2019, through February 23, 2022

#### **Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>**

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- Costs incurred where procurement documentation was not provided, resulting in ineligible Supplies costs of \$1,588. See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report. Please note that of this amount \$818 was also questioned in **Finding 2024-01**. As such, the net amount of \$770 is presented as the questioned costs in the SPFS.
- Ineligible costs, such as winter coats that were erroneously ordered, were charged to the Program, resulting in ineligible Supplies costs of \$143. See **Finding No. 2024-06** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned Supplies costs of \$12,327, consisting of \$913 in ineligible costs and \$11,414 of unsupported costs.

#### **(E) Other**

HALO reported a total of \$83,854 for Other for the period of April 1, 2019, through February 23, 2022.

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

- HALO calculated the allocation based on budget and not actual costs incurred and did not provide sufficient timesheets or supporting documentation for actual costs resulting in ineligible Other costs of \$10,150. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs where supporting documentation for the allocation methodology of costs charged to the Program was not provided, resulting in unsupported Other costs of \$238. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- Costs incurred where procurement documentation was not provided, resulting in ineligible Other costs of \$1,113. See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report. Please note that of this amount \$613 was also questioned in **Finding 2024-01**. As such, the net amount of \$500 is presented as the questioned costs in the SPFS.

The issues identified above resulted in total questioned Other costs of \$10,888, consisting of \$10,650 in ineligible costs and \$238 in unsupported costs.

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

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
Weapons Removal and Abatement for the Weapons and Ammunition Disposal in Afghanistan  
Program

For the Period of April 1, 2019, through February 23, 2022

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**Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>**

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**(F) Indirect Costs**

HALO reported a total of \$224,213 for Indirect Costs for the period of April 1, 2019, through February 23, 2022.

The indirect costs associated with questioned costs identified in Notes A, B, C, D and E above resulted in total ineligible indirect costs of \$18,196 and total unsupported indirect costs of \$12,282. This resulted in total questioned indirect costs of \$30,478.

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

(Continued)



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors  
The HALO Trust USA, Inc.  
Washington, D.C.

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by the Hazardous Area Life-support Organization Trust USA, Inc. (HALO) under Grant Agreement No. S-PMWRA-16-GR-1053 (Grant Agreement) awarded by the United States Department of State (DoS) in support of the Weapons and Ammunition Disposal in Afghanistan, for the period of April 1, 2019 through February 23, 2022. We have issued our report thereon dated May 17, 2024 with a modified opinion.

### Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of April 1, 2019 through February 23, 2022, we considered HALO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of HALO's internal control. Accordingly, we do not express an opinion on the effectiveness of HALO'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. We considered the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs*, as Finding 2024-01 and 2024-02 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 did identify four deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Findings 2024-03, and 2024-04 are

(Continued)

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considered to be significant deficiencies and Finding 2024-05 and Finding 2024-06 are considered to be deficiencies.

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

### **HALO's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control, and the result of that testing, and not to provide an opinion on the effectiveness of HALO'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 the HALO Trust USA, Inc., the HALO Trust United Kingdom, the United States Department of State, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California  
May 17, 2024

(Continued)



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors  
The HALO Trust USA, Inc.  
Marlborough, MA

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Hazardous Area Life-support Organization Trust USA, Inc. (HALO) under Grant Agreement No. S-PMWRA-16-GR-1053 (Grant Agreement) awarded by the United States Department of State (DoS) in support of the Weapons and Ammunition Disposal in Afghanistan, for the period of April 1, 2019 through February 23, 2022. We have issued our report thereon dated May 17, 2024 with a modified opinion.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether HALO's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Grant Agreement, 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 six (6) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2024-01, 2024-02, 2024-03, 2024-04, 2024-05, and 2024-06.

### HALO's Response to Findings

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

### 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

(Continued)

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

*Conrad LLP*

Lake Forest, California  
May 17, 2024

(Continued)



**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053

Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
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**Schedule of Findings and Questioned Costs**

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**Finding 2024-01: Improper and unsupported allocation methodology/support for costs charged to the Program.**

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

**Condition:** Conrad tested a combined 271 out of 3,691 transactions in the Personnel, Fringe Benefits, Travel, Supplies, and Other cost categories representing \$493,241 out of a total of \$2,275,787 to determine if the costs were reasonable, adequately supported, allowable and properly approved. All costs were incurred by HALO UK.

Our testing, we identified the following:

**1) HALO allocated certain categories of shared costs using budget estimates.**

Conrad identified 51 instances of costs that were shared among different projects in Afghanistan where HALO UK did not follow federal guidelines related to cost allocation. On an annual basis HALO UK compiled the remaining budget estimates for all of their ongoing projects to use as the base to calculate each project's percentage of shared costs. For example, if the sum of all projects' remaining budgets was \$1 million and an individual Program's remaining budget was \$250,000, then 25% of the shared costs would be allocated/charged to that individual Program over the next 12 months. This allocation procedure is not compliant with federal guidelines as it relies on budget estimates and did not utilize after the fact studies or actual timekeeping to determine if the amounts allocated were appropriate. This resulted in \$178,686 of ineligible costs.

<b>Cost Category</b>	<b>Instances</b>	<b>Ineligible Costs</b>
Personnel - International	23	\$ 124,806
Personnel - Casual Labor (temporary employees)	3	18,634
Personnel - Security	2	8,369
Fringe Benefits (associated with International Personnel questioned above)	15	12,735
Travel	5	3,992
Other	3	10,150
	<b>51</b>	<b>\$ 178,686</b>

(Continued)

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**Schedule of Findings and Questioned Costs (Continued)**

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**2) HALO split Casual Labor charges between three projects without sufficient documentation supporting the allocation.**

In one instance casual labor charges were split between the Program under the grant and two other HALO UK projects. However, HALO UK failed to provide documentation demonstrating labor hours were incurred by the respective projects. This resulted in \$787 of unsupported costs.

<b>Cost Category</b>	<b>Instances</b>	<b>Unsupported Costs</b>
Personnel – Casual Labor	1	\$ 787
<b>Total</b>	<b>1</b>	<b>\$ 787</b>

**3) HALO allocated shared costs among multiple projects without methodology support.**

In three instances, HALO UK allocated a portion of the shared costs for Supplies and Other to the Program, but they did not provide support for the allocation methodology used. This resulted in \$2,588 of unsupported costs.

<b>Cost Category</b>	<b>Instances</b>	<b>Unsupported Costs</b>
Supplies	2	\$ 2,350
Other	1	238
<b>Totals</b>	<b>3</b>	<b>\$ 2,588</b>

(Continued)

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**Schedule of Findings and Questioned Costs (Continued)**

**Criteria:**

**HALO US Subrecipient Monitoring Procedures**, states in part:

The HALO Trust (USA), Inc. : Site Visit Monitoring Checklist for Sub-Recipients			
Objective	Verification Details	Means of Verification	
Costs are allowable and allocated on a fair and reasonable basis to grants	Key personnel as per grant proposal or amendment	Payroll allocation, staff lists	
	International staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Support staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Bulk purchases are split in proportion to donor funding levels	Accounts & program donor overview	
	All costs are allowable under CFR 200	Review accounts sample	
	Equipment purchased in line with proposal budget	Verify accounts against budget	

**HALO UK Allocation Policy, Section 3.3 Cost Allocation Direct service delivery (Direct Costs)**, states:

***RATIONALE***

*Costs that can be easily and transparently be attributed to a single project (and therefore donor) should be ‘direct charged’ to that donor. Direct costs may include (but not limited to):*

*Staff costs: Mine action teams (e.g., deminers, supervisors, team drivers, medics), mine risk education teams, construction teams etc.*

*Non staff costs: Operational consumables, assets and equipment, fuel, subcontracted activities etc.*

***METHOD***

*Where a cost is deemed a direct cost, the receiving project/grant/contract should be clearly identified on all purchase documentation in order for the cost to be charged directly to the project/grant/contract.”*

**HALO UK Allocation Policy, Section 3.4 Direct service delivery (Shared costs)**, states in part:

*“Costs that benefit more than one project are shared, as far as practically possible to the benefit that each project, and therefore donor received. Shared costs may include (but not limited to):*

(Continued)

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### Schedule of Findings and Questioned Costs (Continued)

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*Staff costs: Head of programme portfolio (on-site and remote), country programme management, operational management, operational support and general administration (e.g. finance, HR, logistics, administration etc.).*

*Non staff costs: Accommodation, general office costs, general running costs*

#### **METHOD**

*Shared costs may relate to a country HQ or other specific location which is funded by more than one donor. Shared costs should be charged to projects using pre-determined cost drivers, via cost-pools, which have been set up on NetSuite in order to standardise the recharging of shared costs to grants. A cost driver in this instance is simply a fair and reasonable basis on which to allocate a shared cost and results in donors being charged proportionally to their relative investment in programme activities.*

*Shared costs should not be charged in periodic 'blocks' as this does not reflect the relative investment of donors as costs are incurred. The charging of shared costs should therefore be monthly across the lifecycle of a project...*

#### **Accounting for shared costs - Pool Accounts**

*Accounting for shared costs will be carried out by utilising pool accounts. The pool account is simply a bucket into which shared costs are posted during any given month. At month end, the total value in the cost pool will be reallocated to projects using the pre-determined cost drivers, with the pool account cleared to zero.*

#### **Full cost Recovery**

*HALO must ensure that fair and reasonable support costs are fully recovered from donors and that the methodologies outlined in this policy achieve this. Programmes must therefore ensure that support cost structures are fit for purpose and appropriate for the shape and size of the programme. Any material shifts in donor funding profiles will likely necessitate both a review of the programme support structure and/or renegotiation with donors on the levels of support cost charge."*

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

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

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

(Continued)

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### Schedule of Findings and Questioned Costs (Continued)

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*(C) The Non-Federal entity's system of internal controls includes processes to review after-the-fact interim changes made to a Federal award based on budget estimates...*

#### **2 CFR 200.405, Allocable Costs**, states in part:

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

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

#### **2 CFR 200.332 (d), Requirements for pass-through entities**, states in part:

*“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”*

#### **2 CFR 200.303, Internal Controls**, states in part:

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

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

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

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

(Continued)

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### Schedule of Findings and Questioned Costs (Continued)

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

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

*(g) Be adequately documented...”*

#### **Cause:**

Multiple issues contributed to the allocation issues identified during our audit.

- 1) HALO US did not monitor, and review HALO UK’s allocation of shared costs charged to the Program to ensure HALO UK was allocating costs in compliance with Federal statutes.
- 2) HALO US did not have adequate subrecipient monitoring procedures in place. The procedures were not clear and suggest that allocated costs may be based on the donor’s budget and or proposal – which was not in compliance with 2 CFR 200.405 and 2 CFR 200.430. HALO US lacked understanding of the allocable requirements under 2 CFR.405 and 2 CFR .430.
- 3) HALO UK lacked internal controls requiring after-the-fact review of charges based on budget estimates.
- 4) HALO UK’s allocation methodology is inadequate and not in compliance with 2 CFR 200.405 and 2 CFR 430, as it uses cost-drivers based on donor funding instead of drivers based on proportional benefits among different programs. HALO UK lacked understanding of the allocable requirements under 2 CFR 405 and 2 CFR 430.
- 5) HALO UK did not document its allocation methodology.
- 6) HALO UK lacked policies requiring the retention of documents demonstrating compliance with its allocation policy.

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

**Questioned Costs:** We identified \$178,686 in ineligible costs and \$17,869 in associated indirect costs, which resulted in total ineligible costs of \$196,555. We also identified \$3,375 in unsupported costs and \$337 in associated indirect costs, which resulted in total unsupported costs of \$3,712. These resulted in total questioned costs of \$200,267.

(Continued)

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**Schedule of Findings and Questioned Costs (Continued)**

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**Recommendation:**

- (1) We recommend that HALO provide additional support to demonstrate the allowability of their cost allocations or return \$200,267 of questioned costs.
- (2) We recommend that HALO US revise its subrecipient monitoring policy to ensure compliance with Federal guidelines requiring after-the-fact allocation reviews, and timekeeping systems that record and retain the actual level of effort spent on different programs.
- (3) We recommend HALO UK revise its allocation methodology policy to ensure costs are allocated based on after-the-fact studies or another reasonable basis, rather than predetermined rates.
- (4) We recommend that HALO UK develop and implement policies and procedures to ensure documentation supporting the allocation methodology is maintained.
- (5) We recommend that HALO provide written guidance and training on how to comply with the 2 CFR 200.405 and 200.430 requirements to ensure they are familiar with the regulations.

(Continued)

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**Schedule of Findings and Questioned Costs (Continued)**

**Finding 2024-02: Inadequate timekeeping policy.**

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

**Condition:** Conrad tested a combined 240 out of 2,893 transactions in the Personnel, Travel and Supplies cost categories representing \$456,607 out of a total of \$2,141,862 to determine if the costs were reasonable, adequately supported, allowable and properly approved. All costs were incurred by HALO UK. During our testing, we noted the following:

Description	Cost Category	Instances	Unsupported Costs
<b>Costs were allocated 100% to the Program without evidence supporting if the costs were 100% related to the Program</b>			
Personnel and associated non-personnel costs, such as travel and food purchased for the employees, were 100% allocated to the Program. The employee timesheets, however, showed the employee worked daily, but did not identify the project or provide a description of the work performed. No evidence was provided showing the employee had worked on the Program, and if so, how much of their total time was spent working on it.	Personnel - National (local employees)	68	\$ 103,074
	Personnel – Casual Labor (temporary employees)	7	1,041
	Travel	1	910
	Supplies	1	1,691
<b>Totals:</b>		<b>77</b>	<b>\$ 106,716</b>

**Criteria:**

**HALO US Subrecipient Monitoring Procedures**, states in part:

The HALO Trust (USA), Inc. : Site Visit Monitoring Checklist for Sub-Recipients			
Objective	Verification Details	Means of Verification	
Costs are allowable and allocated on a fair and reasonable basis to grants	Key personnel as per grant proposal or amendment	Payroll allocation, staff lists	
	International staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Support staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Bulk purchases are split in proportion to donor funding levels	Accounts & program donor overview	
	All costs are allowable under CFR 200	Review accounts sample	
	Equipment purchased in line with proposal budget	Verify accounts against budget	

(Continued)



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### Schedule of Findings and Questioned Costs (Continued)

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**HALO UK, Global Finance and Accounting Manual, Section 11.1, Timesheets / attendance sheets,**  
states in part

*“Timesheets must be completed, signed and checked/authorised on a monthly basis by all staff to ensure that salaries and employee related expenditure is charged to the correct project. Timesheets are a primary piece of evidence to support allocation of expenditure and must be retained in accordance with donor requirements. Where all individuals in a team are working on the same single project, a team timesheet may be used. This must be authorised by the Team manager...”*

*...The layout of the timesheet/attendance sheet may vary from programme to programme, but key information that must be recorded is as follows:*

- *ID number*
- *Name*
- *Position*
- *Overview of days in cycle*
- *Recording of staff present, sick, absent etc. for every day in the cycle...”*

**2 CFR 200.430, Compensation—personal services, Section (i),** states in part:

*“(i) Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:*

*(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;*

*(ii) Be incorporated into the official records of the non-Federal entity;*

*(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities...*

*(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis...*

*...(vii) Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect*

(Continued)

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### Schedule of Findings and Questioned Costs (Continued)

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*activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.”*

**Cause:**

HALO US's subrecipient monitoring policy did not require HALO US to review personnel time keeping policies and practices to ensure timesheets clearly identify the different projects personnel worked on.

HALO UK's timekeeping policies and systems did not require tracking time by project and activity.

**Effect:**

The U.S. government might have overpaid employee related costs under the program.

**Questioned Costs:** We identified \$106,716 in unsupported costs, and \$10,672 in associated indirect costs, which resulted in \$117,388 in total questioned costs.

**Recommendation:**

- (1) We recommend that HALO provide additional support to demonstrate the allocability of personnel time charged to the Program or return \$117,388 of unsupported costs.
- (2) We recommend that HALO US develop additional subrecipient monitoring policies and procedures and ensure HALO UK revises its policies and procedures to make sure timesheets capture actual hours worked by project.

(Continued)

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**Schedule of Findings and Questioned Costs (Continued)**

**Finding 2024-03: Individuals who were not employees of or direct suppliers to the Program were paid with Program funds.**

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

**Condition:** Conrad tested 79 out of 2,495 transactions, representing \$202,691 out of \$684,959 across Fringe Benefits, Travel, and Supplies. All costs were incurred by HALO UK. During our testing to determine if costs incurred under the Grant Agreement were adequately supported and allowable, we identified instances where individuals were paid that were not on the staff list, and payments were made that lacked sufficient evidence to justify costs were allocable to the Program. In other instances, invoice payments were made to individual(s) where there was no evidence of the relation to the vendor providing goods/services. Therefore, the costs have been questioned as follows:

Description	Cost Category	Instances	Unsupported Costs	Associated Indirect Costs	Total Questioned Costs
Fringe benefits – employer’s liability insurance, and travel costs associated with 2 individuals were charged to the Program. These individuals did not appear on the Program’s employee list and were employees of a different Program. No evidence was provided to justify these costs should be charged to the Program.	Fringe Benefits	3	\$ 4,149	\$ 415	\$ 4,564
	Travel and Transport	2	629	63	692
These instances represent	Supplies	4	7,373	737	8,110

(Continued)

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**Schedule of Findings and Questioned Costs (Continued)**

payments made to a non-employee for supplies and were not paid directly to the vendor. We cannot confirm if the supplies were purchased for the Program.					
<b>Totals:</b>	<b>9</b>	<b>\$ 12,151</b>	<b>\$1,215</b>	<b>\$13,366</b>	

**Criteria:**

**HALO US Monitoring Procedures**, states in part:

The HALO Trust (USA), Inc. : Site Visit Monitoring Checklist for Sub-Recipients			
Objective	Verification Details	Means of Verification	
Costs are allowable and allocated on a fair and reasonable basis to grants	Key personnel as per grant proposal or amendment	Payroll allocation, staff lists	
	International staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Support staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Bulk purchases are split in proportion to donor funding levels	Accounts & program donor overview	
	All costs are allowable under CFR 200	Review accounts sample	
	Equipment purchased in line with proposal budget	Verify accounts against budget	

**HALO UK, Global Finance and Accounting Manual, Section 12, Payroll**, states in part:

*“HALO programmes must operate payroll systems that comply with local labour law. HALO programmes may utilise third party payroll software and/or outsource payroll where it can be demonstrated that this is the most efficient method of payroll management. All HALO payroll systems must include the following features:*

- *ID number*
- *Name*
- *Gender*
- *Position*

(Continued)

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### Schedule of Findings and Questioned Costs (Continued)

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- Location
- Donor Project..."

#### **HALO UK Global Finance & Accounting Manual, 8.3 Payment Methods, states:**

*"Once approval has been obtained and the purchase order executed, payments made to suppliers will either be in cash, by cheque or by bank transfer... In the case of cash, the Finance Department will either make a payment direct to the supplier, or, more commonly, the cash will be given to a member of the Logistics Department, who will then pay the supplier..."*

#### **2 CFR 200.303, Internal Controls, states in part:**

*"The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."*

#### **2 CFR 200.332 (d), Requirements for pass-through entities, states in part:**

*"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved."*

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

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

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

#### **2 CFR 200.413(a), Direct Costs, states in part:**

*"General. Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs."*

(Continued)

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#### **Schedule of Findings and Questioned Costs (Continued)**

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**Cause:** HALO US's subrecipient monitoring policy does not include steps - such as testing sample transactions - to ensure subrecipient costs incurred are allowable, reasonable and in accordance with 2 CFR 200.

Fringe Benefits and Travel – HALO stated that these were costs incurred for the Program by individuals who were funded by a different Program. HALO UK did not have policies and procedures in place ensuring that employee timesheets cite the project to which individuals are assigned, as well as the hours and days they worked are allocable to the Program charged. .

Supplies – HALO indicated that these purchases were made for the Program by an individual outside of the Program. However, HALO UK did not have policies and procedures in place to ensure costs incurred outside of the normal procurement process were adequately documented. As such, the allocability and allowability of these costs are in question.

**Effect:** Lack of adequate monitoring of costs incurred by HALO US's subrecipient resulted in charges to the Program that were unallowable.

**Questioned Costs:** We identified \$12,151 in unsupported costs, and \$1,215 in associated indirect costs, which resulted in \$13,366 in total questioned costs.

#### **Recommendation:**

- (1) We recommend that HALO provide sufficient documentation to support the costs incurred were correctly charged to the Program or return \$13,366 in unsupported costs.
- (2) We recommend that HALO US provide cost monitoring guidance to its subrecipients to include steps like sampling and testing costs to determine if they are reasonable and allowable and to appropriately document payments to the vendor providing goods and services.
- (3) We recommend that HALO UK develop policies and procedures to ensure costs incurred by individuals funded by other projects are properly allocated and that related documentation, such as employee timesheets and project codes, are be retained.
- (4) We recommend that HALO UK develop policies and procedures to document that suppliers have received payment for goods and services.

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**Schedule of Findings and Questioned Costs (Continued)**

**Finding 2024-04: Missing or insufficient procurement documentation.**

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

**Condition:** Conrad tested a total of 89 out of 3,222 transactions representing \$220,496 out of \$768,813 across Fringe Benefits, Travel, Supplies, and Other costs. All costs were incurred by HALO UK. We noted HALO UK did not competitively procure the transactions below.

Cost Category	Samples Impacted	Ineligible Costs	Cost Questioned in Finding 2024-01	Net Questioned Costs
Fringe Benefits – Employee Insurance	16	\$ 14,280	\$ 12,735	\$ 1,545
Travel – employee airfare	4	4,183	3,866	317
Supplies – costs related to hiring an Afghanistan Demining Organization	2	1,588	818	770
Other Direct Costs – safe house rental	2	<u>1,113</u>	<u>613</u>	<u>500</u>
<b>Subtotal</b>	<b>24</b>	<b>21,164</b>	<b>18,032</b>	<b>3,132</b>
Indirect Costs		2,116	1,802	314
<b>Totals:</b>	<b>24</b>	<b>\$ 23,280</b>	<b>\$ 19,834</b>	<b>\$ 3,446</b>

**Criteria:**

**HALO US Subrecipient Monitoring Procedures, states in part:**

Procurement activities conducted in accordance with policy and with consideration of best value for money	Relevant staff aware of finance manual and procedures within	Staff interviews	
	Quotes obtained and vendors selected in accordance with policy	Review sample of purchase documentation	
	Verify suitable rationale in place for sole sourced suppliers	Review sample of purchase documentation	
	Check screening for excluded parties on sam.gov	Review sample of purchase documentation	
	Validate documentation from Purchase Request through to payment and entry into inventory	Review sample of purchase documentation, bank statements, store records	

**HALO UK Global Procurement SOP v3-1, 4.2 Simple Procedure (\$300-19,999)**

(Continued)

## The HALO Trust USA, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Grant Agreement No. S-PMWRA-16-GR-1053  
Awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of  
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### Schedule of Findings and Questioned Costs (Continued)

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*The Simple Procedure may be applied up to a maximum transaction value of \$19,999. This procedure requires quotes from a minimum of three suppliers to be sourced and evaluated to find best value for money.*

*How to carry out a Simple Procedure:*

- 1. Purchase Request - Each transaction must be initiated with an approved purchase request. For local procurement, this means submitting an approved Purchase Request Form (P1.4.). For international procurement, this means submitting an entry to the relevant Quotes page on HALO Smart Logistics.*
- 2. Sourcing of Quotes - A minimum of three (3) quotations must be sought for the required goods/services. Quotes can be in the form of formal quotations on headed paper, emails from suppliers or via supplier websites online. If the supplier can only provide a quote verbally, provide them with a Request for Quotation Form (P1.5.) to complete.*
- 3. Quote Evaluation – Quotes obtained should be evaluated based upon the criteria detailed in Section 4.7. The most suitable supplier should be selected.*
- 4. Purchase Approval – The purchase must be approved by the relevant procurement authority, as per the delegations set in the programme’s Procurement Authority Form (see Section 4 intro). Approval can be via email or signed copy of the Quote Evaluation Form (P1.6.).*
- 5. Purchase Order – After analysis, evaluation and subsequent approval of the quotation(s) obtained, a Purchase Order (P1.8.) should be raised and issued to the supplier. If the supplier does not require a PO, one should be raised anyway for internal purposes. If none of the quotes sourced are deemed suitable for approval by the procurement authority, additional quotations should be sourced and provided for consideration.*
- 6. Receipt of Goods/Services – It must be recorded once goods/services have been received. For local procurement, this means completing a Goods Received Note (P1.9.). For international procurement, this includes updating the status of the goods/services on the relevant freight tab on HALO Smart Logistics.*

#### **2 CFR 200.303, Internal Controls, states in part:**

*“The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award...”*

#### **2 CFR 200.332 (d), Requirements for pass-through entities, states in part:**

*“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”*

(Continued)



## The HALO Trust USA, Inc.

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### Schedule of Findings and Questioned Costs (Continued)

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#### **2 CFR 200.319, Competition**, states in part:

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

#### **2 CFR 200.323, Contract cost and price**, states in part:

*“(a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications.”*

#### **2 CFR 200.404, Reasonable Costs**, states in part:

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

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

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

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

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

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

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

*(g) Be adequately documented..."*

**Cause:** HALO US did not enforce and follow its subrecipient monitoring procedures to ensure purchases and services were properly procured.

(Continued)

## The HALO Trust USA, Inc.

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### Schedule of Findings and Questioned Costs (Continued)

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HALO UK did not follow its Global Procurement Policy for the following reasons:

**Fringe Benefits and Travel:** The Program used HALO's corporate office to manage insurance and travel arrangements, but the corporate office did not provide the Program with procurement documents.

**Supplies:** These transactions were related to the costs associated with hiring a demining organization in Afghanistan. HALO UK stated that the Afghanistan government instructed them to select an organization from a list of government-authorized demining organizations. HALO picked two organizations without performing any procurement procedures.

**Other Direct Costs:** These transactions are related to a safe house rental. HALO UK stated they had a rental agreement with the vendor since 2017. At the end of the lease, they extended the prior rental agreement without seeking additional bids. Additionally, there was no procurement supporting documentation for the original vendor selection in 2017.

**Effect:** Due to the lack of procurement and competitive analysis for costs charged to the Program, there is a risk the U.S. government may have overpaid for goods and services.

**Questioned Costs:** We identified \$21,164 in ineligible costs and \$2,116 in associated indirect costs, which resulted in \$23,280 of total ineligible costs.

Please note in the SPFS presentation, the amount already questioned in Finding 2024-01 of \$19,834 was not questioned again under this finding. However, if these costs are found to be supported under Finding 2024-01, they would still be questioned and recommended to be refunded under this finding.

#### **Recommendation:**

- (1) We recommend that HALO provide support showing the cost/price reasonableness of the costs in question or return \$23,280 of ineligible costs and associated indirect costs.
- (2) We recommend that HALO US develop additional step by step subrecipient monitoring procedures to ensure costs are procured in accordance with its subrecipient procurement policy.
- (3) We recommend that HALO UK develop procedures to ensure that all vendors are subject to a competitive vetting process as required by its Global Procurement Policy.
- (4) HALO UK should develop procedures to maintain documentation supporting procurements including the competitive process as required in its procurement policy.

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Schedule of Findings and Questioned Costs (Continued)**

**Finding 2024-05: Lack of adherence to HALO’s travel policies.**

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

**Condition:** Conrad tested 11 of 330 transactions in the Travel Costs category, representing \$7,023 out of a total of \$28,321 to determine if the costs incurred under the Program were reasonable, adequately supported, properly approved, and allowable. All costs were incurred by HALO UK. During our testing, we noted the following:

Description	Samples Impacted	Unsupported Costs	Ineligible Costs	Amount Questioned in Prior Finding	Net Questioned Costs
Missing flight tickets and receipt supporting costs charged to the Program.	1	\$ 575	\$ -	\$ -	\$ 575
Missing invoice and proof of payments for local transportation	1	251	-	251 (2024-02)	-
Travel costs were charged to the Program for the employee’s traveling partner without approval from the funding agency.	1	-	451	451 (2024-01)	-
<b>Subtotal</b>	<b>3</b>	<b>826</b>	<b>451</b>	<b>702</b>	<b>575</b>
Indirect Cost		83	45	70	58
<b>Total</b>	<b>3</b>	<b>\$ 909</b>	<b>\$ 496</b>	<b>\$ 772</b>	<b>\$ 633</b>

All the instances noted above resulted in total unsupported costs of \$909 and ineligible costs of \$496.

**Criteria:**

**HALO UK Intranet – HQ Admin and Travel, 3.1 Travel Request Form Procedure:**

*As always, the admin team provide HALO employee travel advice and bookings including: flights, hotel reservations, visas and the correct paperwork to support passport applications. All travel requests should be submitted on a flight request form (see below).*

(Continued)

## The HALO Trust USA, Inc.

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### Schedule of Findings and Questioned Costs (Continued)

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- 1) *Fill in the form once you have approval from your line manager then email to [travel@halotrust.org](mailto:travel@halotrust.org) - please remember to advise the budget line, donor code and indicate if the travel will be paid out of U.S. Government funding, the latter is important in order to book flights in compliance with the Fly America Act where necessary.*
- 2) *Your request will be allocated to one of the admin team who will revert with at least three flight quotations*
- 3) *Please confirm your preferred option, at this point we might be able to hold flights with some airlines until further notice - please note the prices quoted are live and subject to change if not held*
- 4) *Flights will be booked and e-tickets emailed to you, please check details and acknowledge when received*
- 5) *If travel dates require changing after booking, please email [travel@halotrust.org](mailto:travel@halotrust.org)*

#### **HALO UK Staff Handbook, March 2015, 6. Travel/Leave Flights**

##### *a) Business Travel*

*HALO Scotland HQ Admin Office will make travel arrangements for the expatriate at the start and end of any overseas assignment, including redeployment to another country. The Admin Office at HALO Scotland will make travel arrangements for you where you need to travel as part of your job. Before booking travel, your dates and expenses should be approved by your Programme.*

#### **2 CFR 200.474, Travel costs, states in part:**

*“Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies.”*

#### **2 CFR 200.303, Internal Controls, states in part:**

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

(Continued)

## The HALO Trust USA, Inc.

Financial Audit of the Special Purpose Financial Statement for  
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### Schedule of Findings and Questioned Costs (Continued)

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*States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);*

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

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

**2 CFR 200.332 (d), Requirements for pass-through entities, states in part:**

*"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved."*

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

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

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

*(b) (g) Be adequately documented..."*

**Cause:** HALO US did not have a policy that specifically required monitoring a subrecipient's compliance with its travel policies and procedures when approving travel expenses charged to the Program.

**Insufficient Documentation for Travel Costs:** HALO UK management lacked adequate oversight to ensure travel was supported by sufficient documentation.

**Travel Partner Charges:** In Afghanistan it is common for women to travel with a spouse or a partner; however, the grant did not provide for these situations, and HALO UK did not have a policy covering travel partners.

**Effect:** Lack of approvals and insufficient documentation increased the risk that the U.S. government may have been overcharged or paid for ineligible costs.

**Questioned Costs:** We identified \$826 in unsupported costs and \$128 in associated indirect costs, which resulted in total unsupported costs of \$909. We also identified \$451 in ineligible costs and \$45 in associated indirect costs, which resulted in total ineligible costs of \$496. This resulted in total questioned costs of \$1,405.

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Schedule of Findings and Questioned Costs (Continued)**

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Please note in the SPFS presentation, the amount of \$772 is already questioned in Finding 2024-01 and 2024-02 as such the amount was not questioned again under this finding. However, if these costs are found to be supported under Finding 2024-01 and Finding 2024-02, they would still be questioned and recommended to be refunded under this finding.

**Recommendation:**

- (1) We recommend that HALO provide supporting documentation that justifies the costs charged to the Program or return \$1,405 of unsupported costs and associated indirect.
- (2) We recommend that HALO US develop and implement a subrecipient monitoring policy to ensure subrecipient travel is in accordance with the subrecipient's travel policies and procedures.
- (3) We recommend that HALO UK implement policies and procedures to improve management oversight so that travel costs adhere to travel policies and that supporting documents, such as flight tickets, receipts, invoices, and proof of payments are obtained and maintained.
- (4) We recommend that HALO UK develop and implement policies and procedures to cover travel partners to include approvals from the funding agency prior to traveling with a spouse or partner.

(Continued)

**The HALO Trust USA, Inc.**

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**Schedule of Findings and Questioned Costs (Continued)**

**Finding 2024-06: Program supplies costs were erroneously charged to the Program.**

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

**Condition:** Conrad tested 47 of 2,094 transactions in the Supplies category, representing \$176,838 out of the total \$606,567. All costs were incurred by HALO’s subrecipient. During our testing to determine if costs incurred under the Grant Agreement were adequately supported and allowable, we noted one (1) instance where HALO UK purchased 13 more winter coats than the number of employees on the staff list, resulting in ineligible costs of \$143.

**Criteria:**

**HALO US Subrecipient Monitoring Procedures**, states in part:

The HALO Trust (USA), Inc. : Site Visit Monitoring Checklist for Sub-Recipients			
Objective	Verification Details	Means of Verification	
Costs are allowable and allocated on a fair and reasonable basis to grants	Key personnel as per grant proposal or amendment	Payroll allocation, staff lists	
	International staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Support staff allocated as per proposal	Payroll allocation, staff lists, timesheets	
	Bulk purchases are split in proportion to donor funding levels	Accounts & program donor overview	
	All costs are allowable under CFR 200	Review accounts sample	
	Equipment purchased in line with proposal budget	Verify accounts against budget	

**HALO UK SOP13AFG – Finance, Logistics, and Procurement, 1.5 Purchase Approval Procedure**

*“E. OV Request – Small teams (all locations)*

*1) OV Request form completed by Team Leader before the beginning of the cycle. Expected Food cost calculated based on number of people in the team for the cycle using a printout from the staff database which should be attached to the OV Request. Other costs (Medical, Fuel, VM, Casual Labour etc) should be estimated in proportion to the team size.*

*2) Request taken to Supervisor for approval.*

*3) If approved, request is then taken to the Finance Technician or Location Manager (LM) for review and to assign donor contract(s)...”*

**2 CFR 200.332 (d), Requirements for pass-through entities**, states in part:

(Continued)

## The HALO Trust USA, Inc.

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### Schedule of Findings and Questioned Costs (Continued)

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*"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved."*

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

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

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

**Cause:** HALO US did not have comprehensive subrecipient monitoring policies and procedures to ensure ineligible/unallowable costs were not charged and billed to HALO.

HALO UK stated the winter coats were purchased in error as there were multiple ongoing projects and they accidentally purchased more coats than the number of employees directly working under this Program.

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

**Questioned Costs:** We identified \$143 in ineligible costs, and \$14 in associated indirect costs, which resulted in \$157 in total questioned costs.

#### **Recommendation:**

(1) We recommend that HALO provide sufficient documentation to support the costs incurred were related to the Program or return the \$157 of ineligible cost and associated indirect costs.

(2) We recommend that HALO US develop additional subrecipient monitoring policy and procedures to review costs reported by its subrecipient to ensure they are allowable costs and remove any ineligible expenses before reporting costs.

(3) We recommend that HALO UK develop policies and procedures to ensure sufficient management review of transactions so that ineligible costs, such as purchases made in error, are not charged to the U.S. government.

(Continued)



## The HALO Trust USA, Inc.

### Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053

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#### **Status of Prior Audit Findings**

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We requested prior audit reports, evaluations, and reviews from HALO, SIGAR, and DoS pertaining to Grant Agreement activities under this audit. We identified one (1) prior audit report which contained two (2) findings and accompanying recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with HALO's management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

1. HALO – SIGAR 21-01 (Department of State's Weapons and Ammunition Disposal in Afghanistan Program: Audit of Costs Incurred by HALO) – An audit of costs for the period of September 1, 2015, through March 31, 2019.

#### **Finding 2019-01: Unreasonable and unsupported payroll allocation method for administrative support staff, operations management employees, and international employees**

**Issue:** The audit firm noted that for seven out of 11 grants audited, HALO charged administrative support, operational management, and international employee wages using an allocation method that does not demonstrate how employee labor costs were identified with specific cost objectives. The audit firm notes the documentation for supporting identification of costs with specific cost objectives were inadequate and that HALO based their allocation of expenses on a budget estimate and did not subsequently review and reconcile budget estimates against actual timekeeping documentation to determine allocability. The audit report questioned \$2,670,354 of unsupported payroll costs related to this finding.

**Status:** For the current engagement, we identified 132 instances where HALO incorrectly allocated costs based on their budget and/or was unable to provide sufficient documentation that showed HALO allocated their costs based on actual costs incurred. See **Finding 2024-01** of this audit report. As such, Conrad concluded that HALO has not taken adequate corrective action on this finding.

#### **Finding 2019-02: Unsupported variance between general ledger and financial report**

**Issue:** The audit firm noted that HALO identified a variance between total disbursements per the general ledger and SF-425, resulting in \$134,280 in unsupported costs.

**Status:** For the current engagement, no instances of unsupported variances between the general ledger and financial reports were noted. As such, Conrad concluded that HALO has taken adequate corrective action on this finding.

(Continued)

**The HALO Trust USA, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**The HALO's Responses to Audit Findings**

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Included on the following pages are HALO's responses received to the findings identified in this report.

(Continued)



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May 8, 2024

Angela Nguyen  
Conrad LLP

Dear Angela,

**RE: The HALO Trust (USA) Inc., Management Response to the Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053 For the Period of April 1, 2019, through February 23, 2022.**

Thank you for the opportunity to respond to the draft report of *Financial Audit of the Special Purpose Financial Statement for Grant Agreement no. S-PMWRA-16-GR-1053*. The purpose of this letter is to provide further information on the items outlined in the audit pertaining to The HALO Trust (USA) Inc. (hereinafter referred to as HALO USA).

### **Context**

HALO USA provides extensive oversight of its subgrantee, The HALO Trust (hereinafter referred to as HALO UK), both in the delivery of the operational outputs for all federal awards as well as financial compliance. This process involves careful monitoring of program reporting, providing ongoing training to subgrantee staff on federal grant requirements, liaising with State Department (PM/WRA) program and resource management staff to secure approvals where necessary for key cost allocation methods. A team of three HALO USA full-time staff are dedicated to this function.

HALO USA recognizes that this oversight is essential for ensuring that the program delivers its humanitarian outputs and to ensure that Congress and the American people can be assured that all US funds are spent for their intended purpose.

Given the expansion of both Taliban and ISIS-K activity during the grant period under review, HALO USA introduced the Verify Comply system in January 2020 to vet its entire workforce in Afghanistan against OFAC lists monthly to ensure no sanctioned individual or group was employed by HALO, thereby protecting US security interests and taxpayer resources.

With the closure of the US embassy in Kabul, HALO USA increased the number of visits by staff who had recently been in Afghanistan to Washington to provide accurate reporting to State (PM/WRA), State (SCA), and key Congressional leaders. In the absence of US eyes on the ground, HALO USA made sure that policy

makers benefitted from fresh field observations on HALO’s direct operational outputs, ability to continue to employ women, security conditions in remote provinces, and other issues of overall importance to US taxpayers.

### **HALO USA Response to Findings**

I have taken each audit finding and associated recommendation pertaining to HALO USA in turn, followed by HALO USA’s management response:

#### **Finding 2024-01, Recommendation 2:**

**We recommend that HALO US revise its subrecipient monitoring policy to ensure compliance with Federal Guidelines requiring after-the-fact allocation reviews, and timekeeping systems that record and retain the actual level of effort spent on different programs.**

#### **HALO USA Response:**

HALO USA was directly involved in seeking approval for the cost allocation methodology utilized by HALO UK from US Department of State (PM/WRA) at the direction of SIGAR in a 2016 report prepared by audit firm Williams Adley (enclosed). Given our reading of 2CFR 200, coupled with SIGAR’s recommendation that we obtain cognizant agency approval for the cost allocation method, we sought and received US DOS, PM/WRA approval in 2016.

After receiving the SIGAR audit report dated 20 July 2020 which maintained scrutiny of the cost allocation methodology and notwithstanding the US DOS PM/WRA approval already in place, HALO USA oversaw the design and implementation of revised HALO UK financial standard operating procedures and financial systems (Oracle NetSuite) that ensured HALO UK was in compliance with 2CFR200, particularly in respect of 2CFR200.405 (allocable costs). HALO USA also provided a subgrant (supported by HALO USA’s private donors) to HALO UK to support this process, both for Afghanistan and globally, to strengthen the real-life application and country program adherence to HALO UK’s cost allocation methodology in a way that is easier to demonstrate going forward.

#### **Finding 2024-02, Recommendation 2:**

**We recommend that HALO US develop additional subrecipient monitoring policies and procedures to ensure HALO UK revises its policies and procedures to make sure timesheets capture actual hours worked by project.**

#### **HALO USA Response:**

HALO USA provided guidance and oversight to HALO UK’s development of revised financial standard operating procedures, cost allocation policy and the design and implementation of NetSuite, ensuring that each was in compliance with 2CFR200, particularly in respect of 2CFR200.405 (allocable costs), meeting the corrective actions identified in the 20 July 2020 SIGAR audit. HALO USA will continue to validate HALO UK’s adherence to 2CFR200, through sub-recipient monitoring procedures including internal audits and reviews.

#### **Finding 2024-03, Recommendation 2:**

**We recommend that HALO US provide cost monitoring guidance to its subrecipients to include steps like sampling and testing costs to determine if they are reasonable and allowable and to appropriately document payments to the vendor providing goods and services.**

**HALO USA Response:**

It is HALO USA's practice to complement its remote oversight of all subrecipient awards with periodic field visits to ensure operational and financial compliance. However, during the period under review, Afghanistan experienced a rapid deterioration in security, including an attack by ISIS-K in June 2021 which killed 11 HALO staff. Given this insecurity, and guidance by the State Department on US citizen travel, HALO was unable to perform a subrecipient monitoring visit, relying instead on remote oversight of the subrecipient. HALO USA's internal compliance visits include the requirement to produce a report which is available to the program, including corrective actions required. The monitoring visits include (but are not limited to) compliance checks against:

- Key personnel.
- Donor proportionality (reasonableness of charges to grants etc.).
- Direct and Support staff allocations.
- Bulk purchasing – cost allocations.
- Fly America.
- Supplier due diligence, including SAM.Gov.
- Adherence to chart of accounts coding.
- Purchasing of equipment.
- Adherence to HALO UK financial standard operating procedures.
- Adherence to HALO UK procurement standard operating procedures.
- Quality and availability of documentation.
- Asset Management including quality of asset registers and quality/availability of assets/equipment.
- Output/beneficiary reporting including collection, validation and reporting of operational data.
- PM/WRA metrics tables.
- PM/WRA visibility requirements.
- Conflicts of interest.
- Leahy vetting.
- Vehicle logs.
- Internal quality assurance processes (including follow up of corrective actions identified).
- External quality assurance processes (including follow up of corrective actions identified).
- Operational accreditation.
- Activities conducted in accordance with operational standard operating procedures.

**Finding 2024-04, Recommendation 2:**

**We recommend that HALO US develop additional step by step subrecipient monitoring procedures to ensure costs are procured in accordance with its subrecipient procurement policy.**

**HALO USA Response:**

As discussed above, HALO USA carries out remote oversight of HALO UK, in addition to subrecipient monitoring visits to a standard form, including adherence to procurement policy and procedures.

**Finding 2024-05, Recommendation 2:**  
We recommend that HALO US develop and implement a subrecipient monitoring policy to ensure subrecipient travel is in accordance with the subrecipient's travel policies and procedures.

**HALO USA Response:**

As discussed above, HALO USA carries out remote oversight of HALO UK, in addition to subrecipient monitoring visits to a standard form, including adherence to travel policy and procedures.

**Finding 2024-06, Recommendation 2:**

We recommend that HALO US develop additional subrecipient monitoring policy and procedures to review costs reported by its subrecipient to ensure they are allowable costs and remove any ineligible expenses before reporting costs.

**HALO USA Response:**

HALO USA provided guidance and oversight to HALO UK's development of revised financial standard operating procedures, cost allocation policy and the design and implementation of NetSuite, ensuring that each was in compliance with 2CFR200, particularly in respect of 2CFR200.404 (reasonable costs) and 2CFR200.405 (allocable costs), meeting the corrective actions identified in the 20 July 2020 SIGAR audit.

HALO USA will continue to validate HALO UK's adherence to 2CFR200, through remote sampling of transaction data, and sub-recipient monitoring procedures including internal audits and reviews.

In Summary, HALO USA played an active role in overseeing the successful delivery of vital humanitarian outputs for the US government. It adjusted its approach in the face of new challenges, including a fatal attack on its subrecipients staff and the closure of the US Embassy, to ensure that new risks were mitigated, and that the US government continued to benefit from HALO's eyes and ears on the ground. It also, moved quickly to support the corrective action identified by SIGAR.

Sincerely,



Chris Whately  
Executive Director



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United Kingdom

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Angela Nguyen  
Conrad LLP

May 8 2024

Dear Angela,

**RE: The HALO Trust Management Response to the Financial Audit of the Special Purpose Financial Statement for Grant Agreement No. S-PMWRA-16-GR-1053 For the Period of April 1, 2019, through February 23, 2022.**

Please find enclosed The HALO Trusts management response in respect of the above audit. I have broken the response down into six sections outlined below.

1. Executive Summary
2. Operating Context
3. Delivery of Grant Objectives
4. Cost allocation method approval from the cognizant agency (US DOS, approved by PM/WRA)
5. Prior SIGAR Audit Corrective Action
6. Response to audit findings and recommendations
  - Finding 2024-01
  - Finding 2024-02
  - Finding 2024-03
  - Finding 2024-04
  - Finding 2024-05
  - Finding 2024-06
7. External Audit (compliance with 2CFR200)
8. Annexes

For the purposes of this response, The HALO Trust, (USA), Inc., the prime grantee of US DOS, PM/WRA funding during the period of audit shall be referred to as 'HALO USA', and The HALO Trust, the sub recipient of US DOS, PM/WRA funding during the period of audit shall be referred to as 'HALO UK'.

Per your request, I enclose HALO USA responses to findings and recommendations under separate cover.

I look forward to hearing from you.

Yours sincerely

**Mick Darby**

**Chief Financial Officer**

## 1. Executive Summary

The HALO Trust will demonstrate through this management response that in respect of grant 16-GR-1053 it has:

1. Delivered the activities and outputs as defined in the grant agreement, diligently utilizing the funds provided by US DOS, PM/WRA.
2. Ensured the delivery of proportional benefit to donors when allocating costs shared across multiple donors.
3. Implemented the corrective actions identified in the SIGAR audit dated 22 July 2020.
4. Ensured the delivery of the grant without fraud, waste, or abuse.

The key thread running through the audit findings is the extent to which the cost allocation method utilized by HALO for the allocation of shared costs is eligible under 2CFR200. Of the \$335,256 in questioned costs identified, \$313,943 are linked to the use of this cost allocation method.

We have provided written confirmation from the cognizant agency (US DOS, PM/WRA) that HALO's method of cost allocation during the lifetime of this grant was approved.

Notwithstanding this approval, as a response to the corrective action recommendation in the SIGAR audit dated 20 July 2020 and in a drive to modernise its financial systems, HALO implemented new systems, policies, and procedures including the capability to allocate shared costs proportionally in real time, linked to appropriate cost drivers utilized in the month in which transactions occur.

## 2. Operating Context

The HALO Trust is an experienced operator in Afghanistan and long-time partner of PMWRA, delivering US Department of State grants since the year 2000. The breadth and depth of the policies and procedures in place in the programme demonstrate HALO's commitment to maximising the delivery of activities under a robust framework of financial control, whilst taking into consideration the nuances of the operating environment in Afghanistan.

To deliver this grant, HALO responded to a 'Notice of Funding Opportunity' (NOFO) from the US Department of State, committing to deliver the works requested to promote US Foreign Policy Interests to 'demonstrate support for friends and allies'.

At the time the grants were awarded, Afghanistan was a country at war. The targets included in the grant documents were understood by all parties to be indicative expectations, accepting that the conflict environment may create operational limitations on HALO's ability to achieve certain targets due to security and access constraints.

Afghanistan is one of the worlds most contaminated countries in terms of explosives and weaponry. During the Soviet occupation, Soviet forces created large sub-surface ammunition bunkers. With the Soviet withdrawal, these bunkers were abandoned, leaving large caches of ammunition behind. Bunkers either collapsed, rendering them a safety risk for the civilian population, or were seized by non-state armed actors, leading to the re-purposing of ammunition for nefarious activities.

The grant (GR-1053) delivered Weapons and Ammunition Disposal (WAD) activities and contributed to the US-supported disarmament process by collecting and destroying dangerous weapons and ammunition.

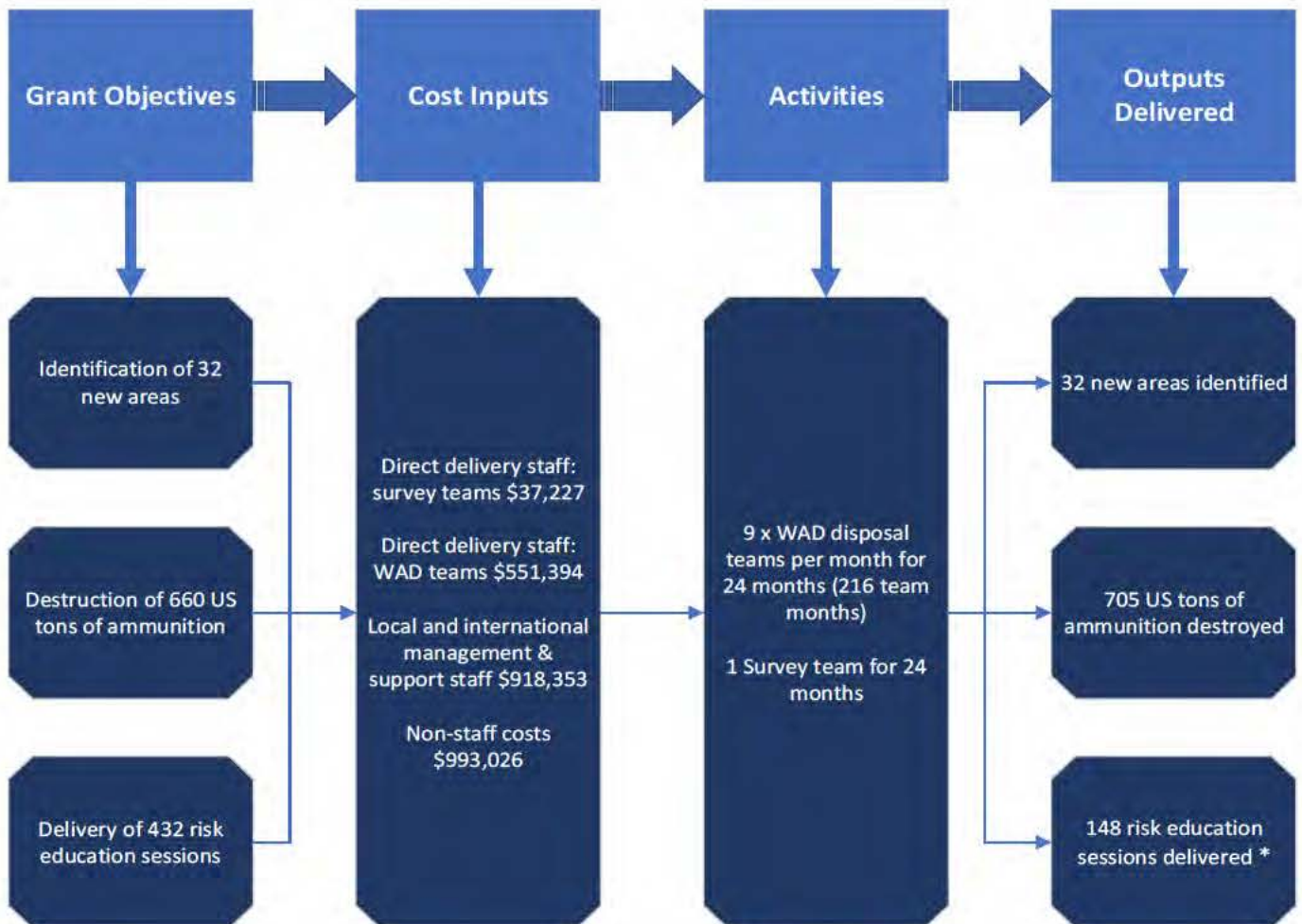


This project improved security for the Afghan civilian population and former (US-supported) Afghan authorities by:

- reducing the risk of accidental death and injury,
- limiting the availability of ammunition and explosives that could be used by armed opposition groups or other actors to cause harm to the civilian population, or International Security Assistance Forces (ISAF) troops.

**3. Delivery of Grant Objectives**

HALO diligently expended funds within a complex operating environment to ensure that grant objectives were delivered. The results chain set out below links the grant objectives, through the cost inputs, which in turn generate the activities deployed and the outputs delivered.



**\*NOTE:** WAD activities were not impacted by Covid-19 restrictions, however the number of risk education sessions delivered was impacted in option year 4 and this was reported to US DOS, PM/WRA.

HALO deployed disposal, and survey teams to locate and dispose of explosives and explosive source materials across Afghanistan. The work delivered under this grant is recorded in HALO’s operational

database, which tracks the location of every team visit, and every item disposed. All HALO projects are monitored and verified at multiple levels to guarantee the proper utilization of funds and delivery of agreed outputs.

**Monitoring and reporting**

The table below sets out the monitoring measures, donor reporting (US DOS, PM/WRA), national authority reporting (DMAC) and US DOS, PM/WRA’s third party monitoring provided by [REDACTED] ([REDACTED]), with a focus on:

- Ensuring all work was delivered in accordance with agreed national and international operating standards and of the requisite quality.
- Ensuring all work reported to US DOS, PM/WRA was accurate and verified at agreed levels.
- Ensuring that costs were incurred in accordance with the approved budget and approved in accordance with the financial standard operating procedures.
- Providing early warning systems where under/over achievement of activities and/or cost could be relayed back to the donor, including any necessary corrective action plans.

Actor	Narrative reporting	Financial reporting	Statistical reporting	Quality assurance visits
US DOS, PM/WRA	✓ (quarterly)	✓ (quarterly)	✓ (quarterly)	
DMAC			✓ (monthly)	✓ (weekly)
[REDACTED]			✓ (monthly)	✓ (weekly)
HALO INTERNAL			✓ (daily)	✓ (daily)

**SIGAR Audit**

With regard the audit findings identified during this audit, none are identified as fraud, abuse, or wasting funds on expenditures that were not required to deliver the project’s outputs.

HALO provided significant documentation to support this audit, demonstrating the policies and processes in place to deliver the grant in accordance with the grant requirements; no audit findings or comments were derived from these. The documents provided included:

- Financial & Narrative Reports
- Original award agreements (grants) & Modifications
- HALO Operational and Management SOPs
- Bank & Cash Reconciliations
  - o HALO UK & USA
- Supplier Contracts

**4. Cost Methodology approval from the cognizant agency (US DOS, PM/WRA)**

On 5 February 2016, audit firm Williams Adley (WA) submitted its final report to The HALO Trust USA Inc, in respect of US DOS, PM/WRA funded grants in Afghanistan for the period April 1, 2011, to March 31, 2015. Williams Adley had presented to SIGAR in December 2015 a draft report reflecting their audit procedure and results, including recommendations. SIGAR fed back to Williams Adley, both in writing and verbally, and these were considered as Williams Adley formed the final audit report.

Once this process is completed and SIGAR has read and accepted the audit report, HALO then has an opportunity to redact any sensitive data which may be contained in the report. This version of the audit report is published on SIGAR's website and includes a covering statement approved by a representative from SIGAR. A link to this document is here; <https://www.oversight.gov/sites/default/files/oig-reports/SIGAR-16-25-FA.pdf>.

In respect of finding 2015-01 'Unsupported and Ineligible Payroll Costs', **WA recommended that HALO:**

**Extract:** a) Implement controls by updating procedures to: 1) record after the fact level of effort reporting and/ or timesheets for its employees charged to and responsible for supporting multiple projects; **or 2) obtain the required written approval of a reasonable allocation methodology by HALO's cognizant agency in lieu thereof.**

On 17 November 2016, HALO wrote to its cognizant agency, US DOS, PM/WRA, requesting approval for a cost allocation method that was appropriate for the operating environment in Afghanistan. This was approved on 5 December 2016 (see Annex 1). The cognizant agency confirmed that this approval was still in effect on 17 March 2020 (See Annex 2).

Notwithstanding this approval, as a response to the corrective action recommendation in the SIGAR audit dated 20 July 2020 and, in a drive, to modernise its financial systems, The HALO Trust implemented new systems, policies and procedures ensuring compliance with 2CFR200. Full details are provided in part 5 of this management response.

## 5. Prior SIGAR Audit Corrective Actions

### Previous Audit findings

#### **Finding 2019-01: Unreasonable and Unsupported Payroll Allocation Method for Administrative Support Staff, Operations Management Employees, and International Employees**

Note: Notwithstanding HALO UK's cost allocation method approval from the cognizant agency (US DOS, PM/WRA), in a drive to modernise its financial systems, HALO took the following corrective action:

#### **Corrective Action:**

- a) HALO UK has implemented a revised **cost allocation policy**, meeting the requirements of CFR200.405 (allocable costs). The policy is designed to enhance that previously in place, ensuring that HALO operates a full cost recovery model and that costs are charged in full to the most appropriate business area, whilst meeting donor cost eligibility requirements. Costs eligible for donor funding are allocated to grants in a transparent, auditable manner and are proportional to the relative benefits received by the donor. This policy ensures that no single cost can be duplicated or double charged to any grant or contract.
- b) HALO UK Implemented a new accounting system (NetSuite) that automates the implementation of the cost allocation policy, where shared costs are allocated to grants utilising cost driver data provided monthly from HALO programmes.

**In respect of b) above, it is important to note the following:**

- I. The final SIGAR audit report was received 20 July 2020.

- II. Over the course of the next 3 months, from July 2020 to October 2020, HALO carried out a needs assessment for a new accounting/ERP system, including the requirement to meet the cost allocation policy.
- III. In October 2020, suppliers were invited to present systems to meet HALO’s needs.
- IV. HALO signed contracts with NetSuite in December 2020
- V. System configuration, testing, training, etc. January 2021 to October 2021
- VI. HALO’s first programme (Cambodia) goes live on NetSuite in November 2021
- VII. HALO Afghanistan goes live on NetSuite in December 2021
- VIII. The automated cost allocation process (testing identified several complex issues that needed to be resolved by the system supplier) goes live in Afghanistan in June 2022

To bring to life an example of the cost-sharing policy and process using NetSuite, a walkthrough of this is provided below:

**Cost allocation walkthrough Afghanistan –Time period: November 2022 – Admin & Support Staff**

**HALO internal grant reference AF018 (US DOS, PMWRA grant 21-GR-3102)**

The November 2022 value of shared support staff costs allocated to this grant was \$5,128.

For the month of November, the form below was submitted by the Afghanistan programme to HALO’s Finance HQ, showing that for grant AF018, there were 63 operational staff out of a total of 2,383 operational staff, representing 2.64% of the Afghanistan program.

This form is completed by the Afghanistan programme following the completion of that month’s payroll. In this example, November’s payroll data. The cost drivers are, therefore, an after-the-fact basis on which to allocate shared costs.

There are times when additional adjustments are required, for example in this case a share of the program’s resources was dedicated to the earthquake response in that month, with a further 300 staff allocated to grant AF021:

Location	GL Seg. code	Cost Driver	AF003		AF005	AF010	AF011	AF013	AF014	AF015	AF017	AF018	AF020	AF021	EW4	EX4	EX5	Total
Afghanistan whole country	AFG	Operational staff deployed	29		32	80	119	9	1195	88	141	63	20	18	87	108	94	2,083
Afghanistan whole country	AFG	Weighted												300				300
<b>Total</b>			29	0	32	80	119	9	1,195	88	141	63	20	318	87	108	94	2,383

Form to be completed no later than 15th of salary month

Form to be attached to NetSuite statistical journal

FORM COMPLETED BY:	Programme manager
SALARY PERIOD TO BE REALLOCATED:	Nov2022

The total expenditure allocated for support staff for the month of November was £167,453.

A 2.64% share of £167,453 is £ 4,421, converted to USD at the system rate of 1.16 for the month gives \$5,128 as the proportionate share that was allocated for November 2022.

**Finding 2019-02: Unsupported Variance Between General Ledger and Financial Report**

The prior audit included the period during which the prime implemented activities and then a period during which the grant was sub-granted. To produce the SPFS, HALO prepared it by merging the prime and subgrantee general ledger records. While this provided a consolidated list of general ledger expenditures, a discrepancy arose when reconciling this back to the associated FFRs, due to timing differences in the movement of funds between the prime grantee and disbursement by the sub-recipient.

**HALO Corrective Action**

The SPFS was presented to the auditor in two parts.

- 1) The prime grantee (HALO USA) presented the SPFS of their revenues for the grant during the grant period and
- 2) The sub-awardee (HALO UK) presented the SPFS of revenue inflow the prime and costs incurred by the budget category.

For this audit report, Conrad LLP consolidated the SPFS's. See page 13, Section 2 b, paragraph 2 of the audit report.

**6. HALO Response to Audit Findings**

Each audit finding is listed below, followed by HALO UK's response. Recommendations are also shown, along with HALO UK's response under each recommendation. The finding references and recommendation references correlate to the draft audit report.

**Finding 2024-01: Improper and unsupported allocation methodology/support for costs charged to the Program.****Finding:****1. HALO allocated specific categories of shared costs using budget estimates.****HALO Response:**

HALO implemented a cost share methodology, meeting the requirements of 2CFR200.404 (reasonable costs) and 2CFR200.405 (allocable costs), with prior written approval issued through HALO's cognizant agency (US DOS, PMWRA).

All expenditure allocated to grants is based on the **actual transaction cost** of each item of expenditure. For payroll costs (2CFR200.430 and 2CFR200.431 refer) this includes:

- Payroll records (a calculation of gross salary, withholdings, employer liabilities, and net pay per employee, identified through a unique employee reference number and their name)
- Contract of employment and support of salary for each role renumerated.
- Proof that employee received their salary (bank statements)
- Proof liabilities were withheld in line with the law.
- Proof liabilities were remitted to the tax department.
- Attendance records (timesheets) are retained for all employees, these demonstrate the date, team number, time of work or shift and are approved by a second reviewer.

- Staff list provided for the auditor, which reconciled the expenditures by transaction, allocated to this grant, by month and time period.

HALO's cost allocation methodology was to ensure each donor funding the HALO UK Afghanistan programme received a fair share of the total support costs over the lifetime of their funding agreements. The costs allocated to grants were reviewed on a periodic basis to ensure that no donor was charged anything other than their 'fair share' of the total shared costs of the programme, linked to their proportion of total donor funding provided to the programme.

**Finding:**

**2. HALO split Casual Labor charges between two projects without sufficient documentation supporting the allocation.**

**HALO Response:**

This cost was incurred for storing explosives at a site approved by the Officiating Government Department ( [REDACTED] ). The cost was shared between 3 donors, all of whom supported the same programmatic activities as this grant (WAD). The cost was shared equally amongst the three donors as they were all funded in the same capacity for this site. HALO UK provided the allocation methodology (determined in accordance with 2CFR200.045) to the audit team, including walkthroughs that demonstrated the link between operational team deployment planner and the shared cost of the transaction.

**Finding:**

**3. HALO allocated shared costs among multiple projects without methodology support.**

**HALO UK Response:**

HALO implemented a cost share methodology with prior written approval issued through HALO's cognizant agency (US DOS, PMWRA), meeting the requirements of 2CFR200.404 (reasonable costs) and 2CFR200.405 (allocable costs).

**Recommendation:**

- 1. We recommend that HALO provide additional support to demonstrate the allowability of their cost allocations or return \$200,267 of questioned costs.**

**HALO UK response:**

HALO shared with the auditors supporting documentation, which demonstrates that each of the questioned costs is allocated to the grant based on the requirement to incur the cost to deliver the activity, the cost is allocated based on a fair proportional benefit, and the cost has been incurred in line with HALO's procurement and financial policies, together with prior written approval issued through HALO's cognizant agency (US DOS, PMWRA), meeting the requirements of 2CFR200.404 (reasonable costs) and 2CFR200.405 (allocable costs).

**Personnel International Staff: \$124,806**

HALO can demonstrate that international staff structures are designed to provide effective, efficient management and administrative support to direct delivery teams, with support staff numbers proportional to the scale of operations across HALO UK Afghanistan, while also considering areas such as security management, donor/grant management, and country oversight. International staff are

budgeted and charged proportionally over the total duration of the grant to grants in the same way as national support staff.

Personnel: Casual labor \$ \$18,633

An allocation methodology is available, and was shared with the audit team, for the apportionment of the Security services provided to HALO UK based on all the donors who funded the program when the service delivery contract was live.

The third instance under this category was for a bereavement payment to the family of a casual laborer who worked 100% of their time on this grant. Therefore, the cost of the bereavement payment was charged in full to this grant.

Personnel Security: \$8,369

An allocation methodology is available, and was shared with the audit team, for the apportionment of the Security services provided to HALO UK based on all the donors who funded the program when the service delivery contract was live.

Fringe Benefits: \$12,734

The cost incurred for the employees' insurance listed under "Personnel International Staff" is allocated to the grant based on the same allocation methodology as the associated payroll costs.

Travel: \$3,992.06

The cost incurred is for the associated travel expenditures incurred by employees listed under "Personnel International Staff". It is allocated to the grant based on the same allocation methodology as the associated payroll costs.

Other: \$10,150.11

These costs were incurred for [REDACTED] to deploy to Afghanistan and support work activities in their technical and operational area. All supporting documentation underpinning the eligibility of these transactions was shared with the audit team.

Indirect costs: \$17,869+\$337

HALO USA, as the prime grantee did not charge any indirect costs to this grant, sub-granting 100% of the grant to The HALO Trust, as sub-recipient. HALO UK then applies the de minimis rate of 10% of Modified Total Direct Costs to this cost category.

**Recommendation:**

- 2. We recommend that HALO US revise its subrecipient monitoring policy to ensure compliance with Federal Guidelines requiring after-the-fact allocation reviews, and timekeeping systems that record and retain the actual level of effort spent on different programs.**

**HALO UK response:**

Please see separate HALO USA response.

**Recommendation:**

- 3. We recommend HALO UK revise its allocation methodology policy to ensure costs are allocated based on after-the-fact studies or another reasonable basis, rather than predetermined rates.**

**HALO UK response:**

HALO UK implemented a cost share methodology with prior written approval issued through HALO's cognizant agency (US DOS, PMWRA), meeting the requirements of 2CFR200.404 (reasonable costs) and 2CFR200.405 (allocable costs). HALO has since revised and implemented its approach to cost allocation, set out in part 5 of this response.

**Recommendation:**

**4. We recommend that HALO UK develop and implement policies and procedures to ensure documentation supporting the allocation methodology is maintained.**

**HALO UK response:**

HALO's cost allocation process is automated within the global accounting system (NetSuite); this was rolled out across all of HALO UK's programs during 2021 and 2022, with HALO UK Afghanistan going live in the system in December 2021.

This enhanced system has a two-step approval workflow, which ensures that each transaction entered in the system is reviewed by a second user to ensure the quality of the data and that support documentation is stored against the transaction. This documentation includes the workflow to allocate shared costs across donors based on an approved cost driver.

The documentation includes:

- Invoice
- Purchase requisition and subsequent approval.
- Goods received note.
- Proof of payment
- Cost driver data, including the payroll information which is the source of the weighting methodology.

In addition, as part of the control process, as documents are stored in system against each transaction, a report is processed highlighting all transactions with no supporting documentation. Missing documentation is now followed up.

**Recommendation:**

**5. We recommend that HALO provide written guidance and training on how to comply with the 2CFR200.405 and 200.430 requirements to ensure they are familiar with the regulations.**

**HALO UK Response:**

HALO UK's systems, policies and procedures are designed to ensure that the requirements (in addition to other regulations), of 2CFR200.405 and 2CFR200.430 are delivered. The provision of high-quality training is critical to ensure that HALO UK employees are equipped to deliver against donor regulations. HALO UK is currently in the process of further developing training courses training materials that enhance the quality and availability of training to staff. The first stage of this process has been the revision of the financial standard operating procedures, to incorporate the implementation of NetSuite and the delivery of the cost allocation policy. The revised SOP's now include work instructions detailing how to implement the policy requirements pertaining to all donors, including the relevant elements of 2CFR200. A financial training officer has been recruited



who will support the design of online courses and webinars, including testing delegates to ensure the success of the training process. A global financial seminar/'train the trainer' event will be held in Turkey in June 2024 for all senior finance personnel, with the first stage of the online content to be rolled out in September/October 2024.

### **Finding 2024- 02 Inadequate timekeeping policy**

#### **1. HALO UK's timekeeping policies and systems did not require tracking time by project and activity.**

##### **HALO UK Response:**

HALO UK implemented a cost share methodology with prior written approval issued through HALO's cognizant agency (US DOS, PMWRA), meeting the requirements of 2CFR200.404 and 2CFR200.405.

Attendance records for all direct delivery teams, including the staff members present on the team and the donor funding the team are held in Afghanistan. This ensures that all direct delivery staff are charged to the correct donor (e.g., the donor funding the team in any given month).

##### **Recommendation**

#### **1. We recommend that HALO provide additional support to demonstrate the allocability of personnel time charged to the Program or return \$117,388 of unsupported costs.**

##### **HALO UK response:**

HALO UK implemented a cost share methodology, which included how HALO would monitor employees through attendance records, with prior written approval issued through HALO's cognizant agency (US DOS, PMWRA), meeting the requirements of 2CFR200.404 and 2CFR200.405.

HALO UK can share the supporting documentation, which demonstrates that each of the questioned costs is allocated to the grant based on proportional benefit, and been incurred in line with HALO UK's procurement and financial policies. HALO UK can demonstrate that all personnel costs are incurred after the fact, ensuring that personnel are paid and have attended and performed their job role.

The questioned costs are:

##### **Personnel National Staff: \$103,074**

The roles listed are classified as support staff. Support staff structures are designed to provide centralized management and administrative support to direct delivery teams. Support staff working centrally who cannot be directly attributed to either a donor or work stream (e.g., Mine Action, Weapons Ammunition Management (WAM)) are not linked directly to a grant, program, mine location, funding agency, or any other metric because they are in place to support a holistic program, funded by multiple donors across multiple locations. HALO UK treatment of interrelated costs and associated recipient responsibility is directly informed by the guidance outlined in 2CFR200.405 (d). Support staff at this scale are therefore budgeted and actual costs charged to grants on a proportionate basis, over the total duration of the grant across the pool of donors funding activities.

##### **Personnel: Casual labor \$ \$1,041**

Casual labor expenditures are incurred for short-term labor hire to support the activities the grant is funding. Each purchase requisition and payment identify the activity, location, and task, which all lead to the ability to allocate the cost based on the level of effort supporting grants. Each transaction has a requisition (provided in the sample) attached to it, which details the project for which the

support is required.

Travel: \$910

HALO provided the air tickets, which detailed the names of the passengers, and a purchase requisition that stated the workstream and donor this cost was incurred for. The passenger names can also be cross-referenced to the employee list of those who worked directly for this grant in support of the activities delivered. Therefore, 100% of this cost was charged to the grant in line with the named employees.

Supplies: \$1,691

Food supplies for support staff are cost-shared based on the proportional benefit to each grant purpose. Purchase requisitions are approved in accordance with the financial standard operating procedures, with receipts obtained and filed by the Afghanistan programs finance officers.

Indirect costs: \$10,672

HALO USA, as the prime grantee did not charge any indirect costs to this grant, sub-granting 100% of the grant to The HALO Trust, as sub-recipient. HALO UK then applies the de minimis rate of 10% of Modified Total Direct Costs to this cost category.

**Recommendation**

- 2. We recommend that HALO US develop additional subrecipient monitoring policies and procedures to ensure HALO UK revises its policies and procedures to make sure timesheets capture actual hours worked by project.**

**HALO UK response:**

Please see separate HALO USA response.

**Finding 2024 – 03 Individuals who were not employees of or direct suppliers to the Program were paid with Program funds.**

**HALO UK Response:**

HALO UK produced, as part of the audit request, a programme employee list that declared by month their total costs of employment for those staff who were directly funded by this grant. This list excluded employees funded through other sources whose role contributed to the delivery of this grant through activities such as monitoring and evaluation and procurement.

**Recommendation:**

- 1. We recommend that HALO provide sufficient documentation to support the costs incurred were correctly charged to the Program or return \$13,366 in unsupported costs.**

**HALO UK Response:**

Fringe benefits (\$4,564, plus travel \$694 inclusive of indirect costs) – employer’s liability insurance and travel costs associated with two individuals were charged to the Program. These individuals did not appear on the Program’s employee list and were employees of a different Program. No evidence was provided to justify that these costs should be charged to the Program.

Having reviewed these transactions against the eligibility criteria, HALO UK accepts that these costs may be disallowed from the grant.

Supplies \$8,110 These instances represent payments made to non-employees for supplies and were not directly paid to the vendor. We cannot confirm if the supplies were purchased for the program.

HALO UK Afghanistan uses a purchase committee within its procurement process, which consists of HALO UK Afghanistan employees from different departments. If a supplier could not directly be in receipt of a bank transfer or cheque payment, a cheque was made payable to a member of this purchase committee, who is then authorised to draw cash from HALO UK Afghanistan's bank account and pay the supplier. The supplier would sign for receipt of the cash. This method of payment minimises the need to hold large volumes of cash at HALO UK Afghanistan locations.

During the audit, we demonstrated that.

- This was in policy at the time and the individuals of the purchase committee were employees of HALO and acting within their terms of reference.
- The procurement process aligned with HALO UK policies and was followed for each transaction, with quotes and evaluation processes in place.
- The supplier goods were received ahead of payment made.
- The supplier provided proof of receipt of funds from the purchase committee member.

**2. We recommend that HALO US provide cost monitoring guidance to its subrecipients to include steps like sampling and testing costs to determine if they are reasonable and allowable and to appropriately document payments to the vendor providing goods and services.**

**HALO UK Response:**

Please see separate HALO USA response.

**3. We recommend that HALO UK develop policies and procedures to ensure costs incurred by individuals funded by other projects are properly allocated and that related documentation, such as employee timesheets and project codes, are be retained.**

**HALO UK Response:**

HALO UK's cost allocation policy ensures that costs are proportional to the relative benefits received by the donor – see section 5 of this response.

**4. We recommend that HALO UK develop policies and procedures to document that suppliers have received payment for goods and services.**

**HALO UK Response:**

For vendors who invoice HALO UK, a vendor ledger records the transactions and payment is made in line with the trading terms and conditions agreed with the vendor. These ledgers are reconciled to vendor statements, when provided, to ensure no invoices are absent or unpaid. Given the automation of these systems there is no requirement to then stamp the invoice as "paid", as the bank payment is allocated against the supplier transactions and a remittance advice communicates this to the vendor.

Most HALO UK's country programmes, including Afghanistan do not operate through vendor ledgers, and provide Payment on delivery of goods. Once a payment has been made the source document is stamped with a "Paid" annotation.

### **Finding 2024-04 Missing or insufficient procurement documentation.**

Following the previous SIGAR audit, HALO UK addressed the financial policy and process to generate the corrective actions and reviewed the full procure-to-pay policy and process. An updated Procurement Policy was released.

#### **Recommendations**

- 1. We recommend that HALO provide support showing the cost/price reasonableness of the costs in question or return \$23,280 of ineligible costs and associated indirect costs.**

#### **HALO UK Response:**

##### Fringe benefits—Employee Insurance \$14,280

HALO uses a UK-based broker to navigate the insurance market and provide coverage for the activities it delivers in its operating countries. This broker works with a limited insurance supply market to review the insurance requirements and availability of products on the market and secure HALO the most effective, efficient insurance options. HALO UK can share the correspondence and a walkthrough of the process to provide additional content if required.

##### Travel – employee airfare \$4,183

HALO can share a walkthrough of the procurement detail for the two suppliers in question, the two suppliers which this finding link to:

Supplier 1: During the audit process HALO UK provided a signed contract with the selected agent (Diversity Travel). This formed part of the sole source agreement.

Supplier 2: During the grant implementation period, there is only one approved Airline (██████████) through which HALO UK's employees could use. Therefore, there were no possibilities to search the market for quotes and flights, and HALO UK directly purchased tickets from the airline. (██████████).

##### Supplies – costs relating to hiring an Afghanistan Demining Organization \$1588

This sole source supplier stored explosives at a site pre-approved by the Officiating Government Department (████████████████████). Without this facility, HALO UK would be unable to conduct the activities and deliver the grant's outputs, explosives are required to destroy the ammunition recorded in the outputs.

Due to the sensitive items held in these stores, searching for alternative solutions is restricted through the local governing authority. The local authority offers designated and protected facilities for Implementing partners to use and would not certify other options. Through this grant agreement, HALO UK, with US DOS, PMWRA's approval, collaborates closely with the national authorities to deliver the activities in a safe, controlled, and collaborative manner.

##### Other direct costs – safe house rental \$1,113

The expat guest house rental was a payment for an existing rental agreement. While the team in Kabul at the point the rental was up for renewal did search the market for alternatives, due to the specifications of the housing required for International Staff, alternatives were not available.

HALO can demonstrate this cost was a renewal and able to demonstrate that once a decision was

made to relocate the safe house a full procurement, security and location assessment was conducted.

- 2. We recommend that HALO US develop additional step by step subrecipient monitoring procedures to ensure costs are procured in accordance with its subrecipient procurement policy.**

**HALO UK Response:**

Please see separate HALO USA response.

- 3. We recommend that HALO UK develop procedures to ensure that all vendors are subject to a competitive vetting process as required by its Global Procurement Policy.**

**HALO UK Response:**

HALO UK's Procurement SOPs were enhanced in December 2020 and again in 2024 to provide improved guidance on the due diligence process for suppliers. Training is provided to logistics teams at country level to ensure policies and procedures are adhered to. HALO recently appointed both a Head of global logistics and Director of Logistics to drive the quality of the logistics service across HALO UK and to ensure all programmes operate in compliance with HALO UK policies and procedures.

- 4. HALO UK should develop procedures to maintain documentation supporting procurements, including the competitive process as required in its procurement policy.**

**HALO UK Response:**

As noted above, HALO UK's Procurement SOPs were enhanced in December 2020 and again in 2024.

**Finding 2024 – 05 Lack of adherence to HALO UK's travel policies.**

All the questioned costs were incurred in accordance with HALO's travel policies, which include the R&R leave policy, the national staff employment policy, and the accompanied posting policy.

**Recommendations**

- 1. We recommend that HALO provide supporting documentation that justifies the costs charged to the Program or return \$1,405 of unsupported costs and associated indirect.**

**Missing flight tickets and receipt supporting costs charged to the Program \$575**

This contributed to an international staff member's R&R flight, baggage, and accommodation. The missing documentation was a flight ticket detailing the flight dates, times, and routing. However, HALO UK provided invoices stating the passenger's name and a cost and allocation method breakdown. HALO UK's global travel monitoring system/security would log the flight dates, times, and routing and can be provided as additional information.

**Missing invoice and proof of payments for the local transportation \$251**

This was for HALO UK employees based in remote camps to travel home at the end of the monthly cycle. Employees are recruited from remote villages with no formal transport links. Therefore, it is HALO UK's policy to provide these personnel with a fixed payment to be used to get them home. Using informal transport links means that there is no means to obtain any formal invoice or proof of payment.

The contributions to these individuals mean they can return home after a period of delivering the activities of this grant to support their household.

Travel costs were charged to the program for the employees' traveling partners without the approval of the funding agency, which was \$451

This ineligible cost was for an international staff employee's Covid-19 test for their partner. HALO UK does have an accompanying post policy, and under this, the cost was eligible for reimbursement. While not funded through this program, the employee was working in full for the Afghanistan country and contributed to the monitoring, evaluation, and reporting of this grant.

- 2. We recommend that HALO US develop and implement a subrecipient monitoring policy to ensure subrecipient travel is in accordance with the subrecipient's travel policies and procedures.**

**HALO UK Response:**

Please see separate HALO USA response.

- 3. We recommend that HALO UK implement policies and procedures to improve management oversight so that travel costs adhere to travel policies and that supporting documents, such as flight tickets, receipts, invoices, and proof of payments are obtained and maintained.**

**HALO UK Response:**

HALO UK has its travel policies and procedures in place and continuously reviews them to ensure the employees can deploy with all security considerations in mind and carry out their roles to deliver the activities under this grant successfully. This includes the support documentation required to support the transaction and is adjusted as technology advances. As an example, as we move from printed boarding passes to smartphone technology.

- 4. We recommend that HALO UK develop and implement policies and procedures to cover travel partners to include approvals from the funding agency prior to traveling with a spouse or partner.**

**HALO Response:**

HALO UK's terms and conditions of employment, including the associated fringe benefits, are continuously reviewed to ensure they align with industry standards, are fair and reasonable for welfare, and enable the successful delivery of the activities. HALO UK will redesign its travel approval process to ensure that donor approval is gained for spouse or partner travel (where required by the donor). This will be implemented from 1 July 2024.

**Finding 2024-06 Program supplies costs were erroneously charged to the Program.**

80 Winter Coats were purchased under this program, which supported 67 persons. The ineligible costs are for the 13 (80-67) coats, which could not be directly attributed to the number of personnel working under this grant funding.

**Recommendation**

- 1. We recommend that HALO provide sufficient documentation to support the costs incurred were related to the Program or return the \$157 of ineligible cost and associated indirect costs.**

**HALO UK Response:**

WAD teams work all year round in remote camps, including the harsh cold and damp winter conditions. It is critical for our staff's welfare always to be warm and dry. Therefore, excess coats are made available for employees to ensure enough dry coats to keep them warm at the end of the day.

- 2. We recommend that HALO US develop additional subrecipient monitoring policy and procedures to review costs reported by its subrecipient to ensure they are allowable costs and remove any ineligible expenses before reporting costs.**

**HALO UK Response:**

Please see HALO USA response.

- 3. We recommend that HALO UK develop policies and procedures to ensure sufficient management review of transactions so that ineligible costs, such as purchases made in error, are not charged to the U.S. government.**

**HALO UK Response:**

HALO has revised its financial operating procedures to ensure that transactions are fully reviewed prior to being released into the general ledger – and through to US Government grant awards. A summary of the process and approval stages is shown below:

<b>Process</b>	<b>Role / Approver</b>
Purchase Requisition	In line with the Delegation of Authority, Program Manager, Location Manager, Fleet/Logs Officer
Quote Selection and Evaluation	Procurement Committee
Good Received Note	Stores Officers (Fleet, etc)
Invoice (transaction entry onto NetSuite)	Finance Officer
Transaction release to General Ledger (and therefore the grant)	Finance Manager
Payment	Finance Manager and/or International Finance Manager

**7. External Audit (Compliance with 2CFR200)**

On an annual basis, HALO USA, (the prime) and HALO UK (sub-grantee) both undergo audits of their statutory financial statements. In addition to the statutory audit, each organization is audited as follows in respect of US DOS funding:

**HALO USA**

Extends this annual audit to include supplementary information as required by 2CFR200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial

statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America

#### **HALO UK**

As a sub-recipient of US Government funding, HALO UK undergoes an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (**Uniform Guidance**) – **2CFR200.501, 2CFR.600.101**

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 financial statement.

These external Uniformed Guidance audit reports are submitted to SIGAR's appointed auditors (Conrad in this instance) as part of the initial request for information.

## **8. ANNEXES**

**ANNEX 1: Cost allocation methodology approval 6 December 2016**

**ANNEX 2: Cost allocation methodology approval 17 March 2020**

**ANNEX 3: Williams Adley SIGAR audit report 5 February 2016**



**ANNEX 1**

2016 request and approval for cost allocation methodology



Mr. Christopher Murguia  
Grants Officer  
Office of Weapons Removal and Abatement  
Bureau of Political-Military Affairs  
U.S. Department of State

November 17<sup>th</sup>, 2016

**Reference: Allocation Methodology for Core Personnel Services (national and international)**

HALO hereby requests a waiver for the methodology which it uses to allocate international personnel, core national support personnel and national field management personnel to its PM/WRA-funded grants and cooperative agreements.

**Budgeting Process**

At the proposal budgeting stage, international staff, national support staff such as vehicle mechanics, transport personnel, equipment technicians, logisticians, camp managers and finance staff, as well as senior field management, are budgeted on a proportional basis, based on the country program's donor profile and funding pool. As an example, a project representing 25% of the program's operational capacity would include a budget for approximately 25% of core support and management staff costs. HALO's programs budget personnel costs by month, so within the grant period a proportional number of months would be budgeted to reflect the scale of the PM/WRA project to the program as a whole.

**Actual apportionment and record-keeping**

**Time Sheets**

HALO uses timesheets (attendance records) to record work performed by all personnel; these are signed off by the relevant line managers to verify the hours worked for each payroll period. For international staff these are managed electronically. This record-keeping applies to all personnel and for all payroll periods (normally monthly), regardless of donor allocation. The time sheet is used as the basis for the salary calculation for each pay period, including deductions/additions for absence or overtime, in accordance with local labor legislation and employment contract terms and conditions.

Payroll Donor Allocation

Within each payroll period (usually a month), the salary payment for each individual, calculated on the basis of the timesheet, is allocated to a donor grant contract. The name and the position of the individual, taxes, deductions, and the donor to which the payment is allocated are included on the payroll documentation and on the payment voucher accompanying the payroll (or electronically through the HQ payroll system for international staff).

The number of payroll periods for which an individual's pay is charged to a PM/WRA grant is based on the budget calculation outlined above. For national staff, the actual payroll cost for the individual is charged to the grant, not the budgeted amount. For international staff, a flat rate is charged to the grant for each month.

The following is a worked example for national staff:

1. A 6-month PM/WRA project represents 50% of the program's operational capacity for that duration. The program has one accountant, who processes financial transactions for all donor projects during the course of a working day and manages the program's finances as whole. The budget therefore allows for 3 months of the accountant's time:

Position	Months Budgeted	Monthly Cost	Total Budget
Accountant	3	\$1,000	\$3,000

2. For each pay period a timesheet is completed recording hours worked on a daily basis. These timesheets reflect:
  - 16 hours overtime in January
  - 16 hours unpaid absence in February
  - 16 hours unpaid absence in June
3. The salary payment for 3 pay periods are allocated to the PM/WRA grant within the project period at actual cost, based on the timesheet for the individual:

Name	Position	Pay Period	Donor/Grant	Salary	Deductions	Overtime	Total
X	Accountant	January	UK	\$1,000	\$0	\$50	\$1,050
X	Accountant	February	PM/WRA	\$1,000	\$50	\$0	\$950
X	Accountant	March	Netherlands	\$1,000	\$0	\$0	\$1,000
X	Accountant	April	UK	\$1,000	\$0	\$0	\$1,000
X	Accountant	May	PM/WRA	\$1,000	\$50	\$0	\$950
X	Accountant	June	PM/WRA	\$1,000	\$0	\$0	\$1,000

(Continued)

*A total of \$2,900 is charged to the PM/WRA based on actual costs for the 3 pay periods allocated to the grant.*

The following is a worked example for international staff:

4. *A 6-month PM/WRA project represents 50% of the program's operational capacity for that duration. The program has one international program manager, who directs the implementation of the PM/WRA grant, as well as the donor project(s) accounting for the remaining 50% of the capacity. Therefore, the budget accounts for 50% of the program managers time over the course of the 6-month project (3 months)*

<b>Position</b>	<b>Months Budgeted</b>	<b>Example Monthly Flat Rate</b>	<b>Total Budget</b>
International Program Manager	3	\$10,000	\$30,000

5. *For each pay period a timesheet is completed recording hours worked on a daily basis. These timesheets reflect actual time and effort.*
6. *A charge of \$10,000 is made to the PM/WRA grant for 3 out of 6 pay periods over the duration of the grant.*

HALO seeks this waiver because in many cases international management and national support and management personnel would be over-burdened if they were to register on hourly time sheets to which donors their tasking should be allocated, and in many cases it is not possible to make a logical distinction between donor projects for support and management activities which contribute to the program as a whole.

Your kind assistance in this matter would be greatly appreciated.

Yours sincerely,

Adam Jasinski  
Executive Director (USA)

**Adam Jasinski**

---

**From:** Murguia, Christopher E <MurguiaCE@state.gov>  
**Sent:** 06 December 2016 18:35  
**To:** Adam Jasinski  
**Cc:** Alexandra Denton  
**Subject:** RE: Staff allocation methodology

Adam,

Many thanks for the clarification and the revision to the document. I approve of the proposed allocation methodology. As you have been doing, please include the updated document with any future award proposals.

Thank you,

Chris Murguia  
 Grants Officer  
 Office of Weapons Removal and Abatement (WRA)  
 Bureau of Political-Military Affairs (PM)  
 Office: 202-663-0085  
 Mobile: 202-957-4392

**Official**  
**UNCLASSIFIED**

---

**From:** Adam Jasinski [mailto:[adam.jasinski@halotrust.org](mailto:adam.jasinski@halotrust.org)]  
**Sent:** Friday, December 02, 2016 7:49 AM  
**To:** Murguia, Christopher E  
**Cc:** Alexandra Denton  
**Subject:** RE: Staff allocation methodology

Dear Chris,

On your second point, apologies, that was a typo on my part - a corrected version is attached.

The flat rate is a composite of charges relating to international staff costs, which include salary, compulsory local benefits, tax and employer contributions, bank transfer fees, insurance, and any other costs and allowances as set out in the personnel handbook for international staff. As you say, international staff also do not qualify for overtime and are on duty/on call at any time while in-country. Generally staff do not qualify for unpaid absence, but where this may occur in unusual circumstances that would not be charged to the grant.

Regards,

Adam

---

**From:** Murguia, Christopher E [mailto:[MurguiaCE@state.gov](mailto:MurguiaCE@state.gov)]  
**Sent:** 29 November 2016 14:39  
**To:** Adam Jasinski <[adam.jasinski@halotrust.org](mailto:adam.jasinski@halotrust.org)>

**Cc:** Alexandra Denton <[alexandra.denton@halotrust.org](mailto:alexandra.denton@halotrust.org)>

**Subject:** RE: Staff allocation methodology

Adam,

Many thanks for the updated staff allocation methodology. I have few questions: 1) On page 2, the document states that “for international staff, a flat rate is charged to the grant for each month.” Is this because international staff do not qualify for unpaid absence and overtime which results in a flat rate charged every month? 2) On page 3 under the international staff example, it states that an international program manager budgeted for 3 months at a flat rate of \$10K will have a total budget of \$10K. Is this correct or should it be \$30K?

Thank you,

Chris Murguia  
Grants Officer  
Office of Weapons Removal and Abatement (PM/WRA)  
U.S. Department of State  
BB: 202-957-4392

**Official**  
**UNCLASSIFIED**

---

**From:** Adam Jasinski [<mailto:adam.jasinski@halotrust.org>]  
**Sent:** Wednesday, November 23, 2016 9:57 AM  
**To:** Murguia, Christopher E  
**Cc:** Alexandra Denton  
**Subject:** Staff allocation methodology

Dear Chris,

Further to our recent conversation, please find attached a letter outlining our staff cost allocation methodology. This expands the previously approved letter regarding national support and management staff to also include international staff.

Please do let me know if you have any questions or comments and I would be happy to talk this through further if necessary.

Best regards,

Adam

Adam Jasinski, Executive Director (USA)  
[www.halotrust.org](http://www.halotrust.org)  
Office: +1 202 331 1266 | Mobile: +1 202 997 6011 | Fax: +1 202 331 1277

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Registered Office: 50 Broadway, London SW1H 0BL.

**ANNEX 2**

2020 request and approval for cost allocation methodology

**Deon Nelson**

---

**From:** Ching, Stephen <ChingS@state.gov>  
**Sent:** Tuesday, March 17, 2020 11:25 AM  
**To:** Deon Nelson; Amasia Zargarian  
**Cc:** Johnson, Macy; Banner, Selecia L  
**Subject:** Approved: Permission for Approval: HALO/PMWRA Agreements

Hi Deon and Amasia,  
 I hope you're both doing well.

HALO's NICRA and staff allocation methodology is approved. Please ensure that you include each in future proposals. Please let me know if you have any further questions or concerns.

Best Regards,  
 Stephen

---

Stephen W. Ching  
 Grants Officer – South and Central Asia | Europe

Office of Weapons Removal and Abatement  
 Bureau of Political-Military Affairs  
 U.S. Department of State

☎: (202) 453-8326 | ✉: [ChingS@State.gov](mailto:ChingS@State.gov)

---

SENSITIVE BUT UNCLASSIFIED

**From:** Deon Nelson <deon.nelson@halotrust.org>  
**Sent:** Monday, March 9, 2020 10:37 AM  
**To:** Banner, Selecia L <BannerSL@state.gov>; Ching, Stephen <ChingS@state.gov>; Johnson, Macy <JohnsonM5@state.gov>  
**Cc:** Amasia Zargarian <amasia.zargarian@halotrust.org>  
**Subject:** Permission for Approval: HALO/PMWRA Agreements

Dear Selecia, Macy, and Stephen,

Two weeks ago, Amasia and I met with Stephen and Macy to discuss the special agreements we had with the previous grants officers, Tom Kodiak and Chris Murguia. Macy and Stephen asked us to review our files to find how many agreements we had, they then asked us to re-submit the agreements for you all to update.

We only have two: HALO's staff allocation methodology and HALO's description of our sub-award agreement and indirect cost capture methodology. I've attached both request letters to this email. If you all could kindly review and approve them, we will make sure to upload these with all future HALO grants so that we avoid any confusion in the future.

Thanks for your time. I'm happy to answer any questions if you have them.



Best,  
Deon



**Deon Nelson, Head of Government Affairs**

[www.halotrust.org](http://www.halotrust.org)

**O: +1 202 331 1266 M: +1 936 355 7779**

**1730 Rhode Island Ave NW, Suite 206, Washington, DC 20036**

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March 10, 2020

Selecia Banner  
Stephen Ching  
Macy Johnson  
Grants Officers  
Office of Weapons Removal and Abatement  
United States Department of State  
2025 E Street, NW, Suite NE 2020 (SA-9)  
Washington, DC 20026

Subject: Request for approval of international staff and national support staff methodology

Dear Ms. Banner, Mr. Ching, and Ms. Johnson,

The HALO Trust (USA), Inc. request the renewal of our sub-awardee's, The HALO Trust, waiver to allocate international staff and national support staff in full monthly increments as opposed to partial monthly increments. We would like to use this methodology on all our PM/WRA-funded grants and cooperative agreements, even though we understand this approval will be granted only on an award-by-award basis and will need to be included in all award files.

Our original waiver request was approved by Tom Kodiak and Chris Murguia in November 2016. This letter will re-present the former request with one small change. This request reflects HALO's new approach to charging actual salary costs for international staff rather than the flat rate system that was used in 2016.

#### **Budgeting process**

At the proposal writing stage, HALO forecasts and budgets for international staff, national support staff, and senior field management personnel costs based on the country program's overall donor profile. For example, a PM/WRA project representing 25 percent of a program's operational capacity would include a budget for approximately 25 percent of management and support staff costs.

HALO budgets personnel costs by month. Within the grant period of performance, a proportional number of months will be budgeted for staff to reflect the scale of the PM/WRA project to the overall program. For example, for a twelve-month project representing 25

percent of a program’s operational capacity, HALO would allocate three months’ salary to relevant staff rather than 25 percent of each month’s salary for twelve months. Both methods arrive at the same total of 25 percent of the employee’s yearly salary. Please see the examples below.

**Actual apportionment and record-keeping**

Attendance records

HALO uses attendance records to record all personnel work. These are approved by managers who verify days and hours worked. Attendance records are used as the basis for salary calculations each pay period. These include deductions or additions in accordance with local labor legislation and employment contract terms and conditions.

Payroll to donor allocation

Within each payroll period (usually monthly), the salary payment for each individual employee is allocated to a specific donor contract. The name and the position of the individual, salary, benefits, taxes, deductions, and the donor to which the payment is allocated are included on the payroll documentation.

The number of payroll periods for which an individual’s pay is charged to a PM/WRA award is based on the budget calculation outlined above. HALO tracks these payments on staff to donor lists.

The following is an example:

1. A 6-month PM/WRA project represents 50 percent of the program’s operational capacity. The program has one accountant managing all program finances. The budget will plan for three months of the accountant’s time:

Position	Months Budgeted	Monthly Cost	Total Budget
Accountant	3	\$1,000	\$3,000

2. For each pay period, a timesheet is completed recording hours worked daily. These timesheets reflect:

- 8 hours overtime in January (+\$50)
- 8 hours unpaid absence in February (-\$50)
- 8 hours unpaid absence in May (-\$50)

3. The salary payment for three pay periods are allocated to the PM/WRA grant within the project period at actual cost, based on the timesheet for the individual:

Name	Position	Pay Period	Donor	Salary	Deductions	Overtime	Total
S. Abdi	Accountant	January	UK	\$1,000	\$ -	\$ 50.00	\$ 1,050.00
S. Abdi	Accountant	February	PM/WRA	\$1,000	\$ 50.00	\$ -	\$ 950.00

S. Abdi	Accountant	March	Netherlands	\$1,000	\$ -	\$ -	\$ 1,000.00
S. Abdi	Accountant	April	UK	\$1,000	\$ -	\$ -	\$ 1,000.00
S. Abdi	Accountant	May	PM/WRA	\$1,000	\$ 50.00	\$ -	\$ 950.00
S. Abdi	Accountant	June	PM/WRA	\$1,000	\$ -	\$ -	\$ 1,000.00

A total of \$2,900 is charged to the PM/WRA award based on actual costs for the three pay periods allocated in the budget.

The following is another example:

1. A 12-month PM/WRA project represents 75 percent of the program’s operational capacity. The program has one international program manager, who directs the implementation of the PM/WRA grant as well as all other donor projects accounting for the remaining 25 percent of the program. Therefore, the budget accounts for 75 percent of the program manager’s time over the course of the 12-month project by budgeting them for nine months.

Position	Months Budgeted	Monthly Cost	Total Budget
International Program Manager	9	\$8,000	\$72,000

2. For each pay period, a timesheet is completed recording days and hours worked.

3. A charge of \$8,000 (actual salary) is made to the PM/WRA grant for nine out of twelve pay periods over the grant period of performance, totaling \$72,000.

Name	Position	Pay Period	Donor	Salary	Total
Jane Doe	PM	January	UK	\$8,000	\$ 8,000
Jane Doe	PM	February	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	March	Netherlands	\$8,000	\$ 8,000
Jane Doe	PM	April	UK	\$8,000	\$ 8,000
Jane Doe	PM	May	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	June	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	July	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	August	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	September	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	October	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	November	PM/WRA	\$8,000	\$ 8,000
Jane Doe	PM	December	PM/WRA	\$8,000	\$ 8,000

**Conclusion**

HALO seeks this waiver for two primary reasons. First, in most cases international and national staff management and support personnel would be over-burdened if they had to tabulate on hourly time sheets which donors their tasking should be allocated. Second, in most cases it is not possible to make a logical distinction between donor projects for support and management

activities which contribute to the overall running of the program. The administrative burdens required by monthly proportional distinction would add administrative costs to PM/WRA programs and likely lessen overall program functioning.

I appreciate your time and care in considering this request. If you have any more questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Nelson'.

Deon Nelson  
Head of Government Affairs  
The HALO Trust (USA), Inc.

**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN  
RECONSTRUCTION**

**FINANCIAL AUDIT OF COSTS  
INCURRED BY  
Hazardous Areas Life-Support Trust  
Organization (HALO)**

**Grants:**

S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006

United States Department of State  
Political-Military Affairs, Office of Weapons Removal and  
Abatement (PM/WRA)

For the period of:  
April 1, 2011 to March 31, 2015

Submitted by



February 5, 2016

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## Transmittal Letter

February 5, 2016

Leadership Team  
 Hazardous Areas Life-Support Trust Organization  
 Washington, DC

Office of the Special Inspector General for Afghanistan Reconstruction  
 Arlington, VA

We hereby provide to you our final report, which reflects results from the procedures we completed during the course of our audit of the Hazardous Areas Life-Support Trust Organization (HALO) grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 with the United States Department of State (USDoS) for its Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) program.

Within the pages that follow, we provide a brief summary of the work performed. Following the summary, we provide 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 and any information preceding our reports.

On December 9, 2015, we provided SIGAR a draft report reflecting our audit procedures and results. HALO received a copy of the report on January 15, 2016 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and HALO. HALO's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of HALO's PM/WRA grants.

Sincerely,

 A handwritten signature in black ink that reads 'Jocelyn Hill'.
 

Jocelyn Hill, CPA  
 Partner

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

1030 15<sup>th</sup> Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

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(Continued)



## Summary

### Background

The United States Department of State (“State Department”) provides funding to grant recipients for services related to reconstruction activities in Afghanistan. Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. As a result, the State Department funded activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The State Department Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) awarded \$14,763,900 to The Hazardous Areas Life-Support Trust Organization (HALO) for five grants under its Weapons and Ammunition Disposal Program.

HALO is headquartered in Scotland, United Kingdom (UK) and is the oldest and largest humanitarian landmine clearance organization in the world. For more than two decades HALO has worked on mine clearance through technical innovation efforts.

SIGAR contracted to audit the five grants and associated modifications awarded to HALO as listed below. The audit scope for the five grants was April 1, 2011 through March 31, 2015. The principal objective of these grants was to provide a safe environment for Afghan inhabitants and returnees in urban and rural areas, thus providing the facility for the return of internally displaced people to their hometowns, normalization of local socio-economic conditions to pave the way for repatriation, resettlement and the rehabilitation of the country.

The chart below shows the purpose of the modifications, the change in grant totals and the period of time the modifications to the grant agreements covered.

**Table 1: HALO Grants with Modifications**

Grant Number S-PMWRA-	Final Grant Value (USD)	Grant value	Starting date	End date	Purpose
11-GR-0016	1,056,000	1,056,000	4/1/2011	3/31/2012	<b>Weapons and Ammunition Disposal</b> Seek out and destroy 400 metric tons of ammunition; detection and removal of ammunition; support Afghan authorities in ammunition storage; enhance security.

Grant Number S-PMWRA-	Final Grant Value (USD)	Grant value	Starting date	End date	Purpose
12-GR-1007	6,500,000	2,500,000	4/1/2012	9/30/2013	<b>Humanitarian Mine clearance in Afghanistan</b> Provide 22 manual demining teams, 4 manual units, 8 mechanical teams, 1 battle area clearance team, 1 unexploded ordnance/abandoned ordnance team and 1 survey team to return to productive use over 2,690,000 square meters of mine contaminated ground and over 5,690,000 ERW contaminated ground, protect victims of conflict, restore access to land, and provide safe access to land for 7,347 families.
Mod 1		4,000,000	4/1/2012	3/31/2013	Obligate Remaining Funds
Mod 2		-541,666	4/1/2012	3/31/2013	Temporary de-obligation (\$541,666). Funds will be reimbursed when FY13 funding becomes available.
Mod 3		541,666	4/1/2012	3/31/2013	Full value of grant funds obligated
Mod 4		0	4/1/2012	9/30/2013	No Cost Extension and Budget Realignment.
12-GR-1009	1,107,900	450,000	4/1/2012	3/31/2013	<b>Weapons and Ammunition Disposal Program – Afghanistan</b> Provide 3 seven-man excavation teams, 3 five-man survey teams, 1 twelve-man Ministry of Defense support team; destroy 300 metric tons of ammunition, reinforce stability and support Afghan National Police.
Mod 1		657,900	4/1/2012	3/31/2013	Full value of grant funds obligated
Mod 2		-92,325	4/1/2012	3/31/2013	Temporary de-obligation (\$92,325). Funds will be reimbursed when FY13 funding becomes available
Mod 3		92,325	4/1/2012	3/31/2013	Full value of grant funds obligated
13-GR-1006	3,750,000	250,000	4/1/2013	9/30/2014	<b>Humanitarian Mine clearance in Afghanistan</b> Return to productive use over 2,000,000 square meters of mine contaminated ground and over 410,000 square meters of ERW contaminated ground; reduce human and livestock casualties; return agricultural land to productive use; safe access to natural resources; improve mine/ERW awareness in impacted communities.
Mod 1		2,250,000	4/1/2013	3/31/2014	Full value of grant funds obligated
Mod 2		1,250,000	4/1/2013	9/30/2014	Increase grant and increase time period

Grant Number S-PMWRA-	Final Grant Value (USD)	Grant value	Starting date	End date	Purpose
13-GR-1004	2,350,000	110,000	4/1/2013	3/31/2015	<b>Weapons and Ammunition Disposal in Afghanistan</b> Detection and removal of ammunition, support good order in Afghan ammunition storage facilities, enhance security, and destroy 400 metric tons of ammunition.
Mod 1		40,000	4/1/2013	3/31/2014	Add incremental funds of \$40k
Mod 2		950,000	4/1/2013	3/31/2014	Release obligated balance of funds
Mod 3		1,250,000	4/1/2014	3/31/2015	Increase grant and time period
<b>TOTAL</b>	<b>14,763,900</b>				

## Work Performed

Williams Adley and Company-DC, LLP (Williams Adley) was contracted by SIGAR to conduct a financial audit of costs incurred by HALO under the above-mentioned PM/WRA grants and associated modifications, and as presented in the Special Purpose Financial Statement for the period from April 1, 2011 through March 31, 2015.

## Objectives

The objectives of the audit were to:

1. Express an opinion on whether the Special Purpose Financial Statement for the grants presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the grants and generally accepted accounting principles or other comprehensive basis of accounting.
2. Evaluate and obtain a sufficient understanding of HALO's internal control related to the grants; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Perform tests to determine whether HALO complied, in all material respects, with the grant requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the grants and applicable laws and regulations, including potential fraud or abuse that may have occurred.

4. Determine and report on whether HALO 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

In general, our scope of work includes the PM/WRA grants and related modifications executed between April 1, 2011 and March 31, 2015, as outlined in Table 1 above.

For the above grants, the engagement services included:

1. Performing a financial audit of incurred costs by HALO under the 5 grants listed above issued by PM/WRA for de-mining, and weapons and ammunition disposal projects in Afghanistan. This audit included test work performed on-site at HALO's office in Kabul, Afghanistan and HALO headquarters in Scotland, United Kingdom.
2. Conducting sufficient testing to express an opinion on the engagement objectives. Our audit included gaining an understanding of the general and application controls in place and organizational capacity of HALO.

Major areas for review included:

- i. Administrative Procedures and Fraud Risk Assessment
  - ii. Budget Management
  - iii. Cash Management
  - iv. Disbursements and Financial Reporting
  - v. Procurement and Inventory Management
3. Performing compliance testing, which included, but was not limited to, activities allowed or dis-allowed; allowable costs/cost principles; cost determination/indirect costs; cash management; eligibility; equipment and real property management; matching, level of effort and earmarking; period of availability of Federal funds; procurement and suspension and debarment; program income; and reporting.
  4. Reviewing transactions for the period from April 1, 2011 to March 31, 2015 and subsequent events and information related to the findings and questioned costs for the audit period.

## Methodology

To meet the audit objectives, Williams Adley identified the applicable criteria needed to test the Statement and supporting financial records and documentation through a review of the grant grants and modifications thereto. The criteria included OMB circulars A-122 and A-133; related regulations under Title 2 of the Code of Federal Regulations (CFR),

Parts 215 and 230, and 22 CFR, Part 145. In addition, Williams Adley reviewed HALO's organizational charts and reporting hierarchy, policies and procedures, and the status of prior audit report findings to gain an understanding of the normal procedures and system of internal controls established by HALO to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Williams Adley used both random and risk-based sampling techniques to select expenditures and payroll samples to test for allowability of incurred costs, and we reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal grants. We requested and received supporting documentation for compliance evaluation of incurred costs. We reviewed submitted financial status reports for accuracy and compliance with reporting requirements. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in compliance with the negotiated indirect cost rate agreement.

Williams Adley employed its affiliate in Afghanistan, Rafaqat Babar & Company (RBCO), to perform testing of source documents in Afghanistan. This arrangement was necessary because HALO maintains some source documents for billings of incurred costs at its field office in Kabul, Afghanistan, for which uploading the documentation to our secure website would have created unnecessary delays in the completion of the work and in the level of effort expended to provide the documents. RBCO provided staff auditors to test source documents along with an audit manager to review the work performed by their team in Afghanistan which was also reviewed by Williams Adley management. RBCO was not responsible for planning, directing, or reporting on the audit.

## Summary of Results

Williams Adley issued a modified opinion on HALO's Special Purpose Financial Statement. Williams Adley also reported on HALO's internal controls and compliance regarding the Statement. Upon completion of our audit procedures, Williams Adley identified 9 findings. One exception was determined to be a material weakness in internal control; two other exceptions were considered significant weaknesses in internal control; and two exceptions were deficiencies in internal control. With respect to compliance, one exception was deemed a material non-compliance issue and the remaining eight exceptions were considered immaterial non-compliance issues. Where internal control and compliance findings pertained to the same matter, we consolidated them into a single finding. Costs totaling \$224,775 were questioned. The questioned costs are summarized in the following table:

**Table 2: Summary of Questioned Costs**

Finding Number	Issue	Unsupported Questioned Cost	Ineligible Questioned Cost	Indirect Questioned Cost	Total Questioned Cost
2015-01	Unsupported & Ineligible Payroll Cost	\$132,204		\$8,346	\$140,550
2015-02	Ineligible Equipment Cost		\$38,781	\$2,509	\$41,290
2015-03	Unsupported Supply Cost	\$19,135		\$1,219	\$20,354
2015-04	Ineligible Supply Cost		\$7,026	\$447	\$7,473
2015-05	Ineligible Budget Line-item Overage		\$15,108		\$15,108
	<b>TOTALS</b>	<b>\$151,339</b>	<b>\$60,915</b>	<b>\$12,521</b>	<b>\$224,775</b>

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

### ***Summary of Prior Audit Reports***

We obtained three years of prior audits, assessments, or reviews of HALO that we considered applicable to the scope of our work and read to ensure that there were no significant deficiencies or material weaknesses noted. We reviewed OMB Circular A-133 audit reports for the fiscal years ended March 31, 2013, 2014 and 2015.

We obtained an understanding of HALO's prior year findings and their current status. The prior audits did cite significant deficiencies over internal controls, which required test work to ensure proper corrective action was taken. Per our inquiries and review, we determined that HALO has taken adequate corrective actions to address two of the five prior internal control findings. One finding relating to the lack of payroll internal controls was included in HALO's prior three years of A-133 audit reports was repeated in this audit report. The past three years of A-133 audit reports also included a finding concerning HALO contract and procurement files missing verification that contractors and vendors were not excluded parties, which is repeated in this audit report. A finding relating to the lack of justification for sole source procurements that was included in the 2013 and 2014

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A-133 audit reports is repeated in this audit report. Please see Attachment B for additional details on the status of prior audit findings.

### ***Summary of Management Comments on Audit Report***

In response to the draft audit report, HALO management did not agree with all of the findings and stated that they dispute most of the questioned costs. For finding 2015-01 HALO disputes that it does not have attendance records and points out that its current payroll records system does meet requirements. HALO asserts that for finding 2015-02 the Kabul audit team (RBCO) was provided with a full explanation about HALO's stock system for delivering the vehicle in question. For finding 2015-04 HALO's position is that the audit team did not understand the process of net agreements with suppliers. HALO responded that for finding 2015-05, it does have financial management reports that are distributed to the Afghanistan team on a monthly basis. In response to finding 2015-06 HALO commented that since 2013 it has carried out an annual review of all capital equipment registers and inventory records in line with donor requirements. HALO stated that finding 2015-07 occurred due to a PMS system error and considers it immaterial. In response to finding 2015-08, HALO states that its procurement procedures (both in narrative and flow diagram format) clearly demonstrate that the Debarment and Suspension requirement is an integral part of its procedures. HALO views finding 2015-09 as a repeat of finding 2015-04. Please see Attachment C for HALO's detailed response to each finding. Our rebuttal to management comments are in Attachment D.

### **Attachments**

The auditor's reports are supplemented by four attachments:

Attachment A contains the Consolidating Special Purpose Statement.  
Attachment B contains the prior audit reports' recommendations and current status.  
Attachment C contains HALO's official management response to the draft report.  
Attachment D contains the auditor's response to management comments.



## **Independent Auditor's Report on the Consolidated Special Purpose Financial Statement**

Leadership Team  
Hazardous Areas Life-Support Trust Organization  
Washington, DC and Scotland, UK

Office of the Special Inspector General for Afghanistan Reconstruction  
Arlington, VA

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

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Hazardous Areas Life-Support Trust Organization (HALO) for grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015; and the related notes to the Statement.

### ***Management's Responsibility for the Consolidated Special Purpose Financial Statement***

The accompanying Statement was prepared to present the revenues earned and costs incurred of HALO pursuant to grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 as described in Note 2a of the Statement, and is not intended to be a complete presentation of HALO's assets, liabilities, revenues and expenses.

HALO's management is responsible for the preparation and fair presentation of the Statement in accordance with the cash basis of accounting as described in Note 2b. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

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An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. The procedures selected depend on the auditors' 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 reasonable basis for our modified opinion.

The accompanying Statement was prepared to present the revenues earned and costs incurred of HALO pursuant to grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 as described in Note 2 of the Statement, and is not intended to be a complete presentation of HALO's assets, liabilities, revenues and expenses.

### ***Basis for Modified Opinion***

The results of our tests disclosed the following questioned costs and material non-compliance as detailed in the special purpose financial statement: (1) \$140,550 in costs that are questioned because cost reasonableness could not be determined due to material non-compliance with, and material internal control deficiency related to labor cost allocation requirements; (2) a material weakness in the reliability of the payroll system to determine cost reasonableness based on our projection of results from the statistically valid sample we tested, for which we estimate that \$5,197,626 of the total payroll costs may have been charged to the grants on the basis of an unapproved allocation methodology; (3) \$20,354 in costs that are not supported with adequate documentation; and (4) \$63,871 in costs that are questioned as ineligible.

### ***Opinion***

In our opinion, except for the effects of the matters described in the *Basis for Modified Opinion* paragraph, the Statement referred to above presents fairly, in all material respects, program revenues and costs incurred and reimbursed under grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015 in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 of the Statement.

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***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued reports dated November 16, 2015 on our consideration of HALO's internal controls over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

***Restriction on Use***

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

Williams, Adley & Company-DC, LLP  
Washington, D.C.  
November 16, 2015

**Hazardous Areas Life-Support Trust Organization (HALO)**  
**Consolidated Special Purpose Financial**  
**Statement**

For the Period of April 1, 2011 to March 31, 2015

Revenues	Budget	Actual	Ineligible	Unsupported	Note
S-PMWRA-11-GR-0016	\$1,056,000	\$1,056,000			2,4
S-PMWRA-12-GR-1007	\$6,500,000	\$6,500,000			2,4
S-PMWRA-12-GR-1009	\$1,107,900	\$1,107,900			2,4
S-PMWRA-13-GR-1006	\$3,750,000	\$3,750,000			2,4
S-PMWRA-13-GR-1004	\$2,350,000	\$2,338,721			2,4
<b>Total Revenue</b>	<b>\$14,763,900</b>	<b>\$14,752,621</b>			
<b>Costs</b>					
Personnel	\$8,153,838	\$8,159,538		\$132,204	2,5,A
Fringe	\$6,000	\$6,569			2,5
Travel	\$113,891	\$128,367			2,5
Equipment	\$480,261	\$506,041	\$38,781		2,3,5,B
Supplies	\$5,163,193	\$5,113,566	\$7,026	\$19,135	2,3,5,B
Total Direct Charges	<b>\$13,917,183</b>	<b>\$13,914,081</b>			
Indirect Costs (NICRA)	\$846,717	\$838,540	\$2,956	\$9,565	2,5,A,B
<b>TOTAL Cost</b>	<b>\$14,763,900</b>	<b>\$14,752,621</b>	\$15,108		C
<i>Outstanding Balance (deficit)</i>		<b>\$0</b>	<b>\$63,871</b>	<b>\$160,904</b>	

The Notes to the Special Purpose Financial Statement are an integral part of the financial statement.

## Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period of April 1, 2011 to March 31, 2015

### Note 1. Status and Operation

HALO is a not-for-profit corporation organized for the purpose of removal of the debris of war in various areas of the world, incorporated in the State of Maryland. HALO is supported primarily from grants by the United States Department of State and other agencies. HALO also receives support from foundations, individuals, and other organized charities.

### Note 2. Summary of Significant Accounting Policies

#### a. Basis of Presentation

The information in this Statement is presented in accordance with requirements specified by Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned agreement.

#### b. Basis of Accounting

The Statement reflects the revenues received and expenses incurred under the grant agreements issued by PM/WRA. The Statement is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). It has been prepared on the cash basis of accounting. Under the cash basis of accounting revenues are recognized when received.

#### c. Currency

The Special Purpose Financial Statement is presented in United States Dollars. For purposes of preparing the Statement, expenditures are recorded in US dollars (USD) or UK pounds sterling (GBP). HALO translates this expenditure to USD based upon monthly exchange rates published by the European Commission, in line with recognized accounting practice. Afghanis (AFS) are expended at the rate the bank formally exchanges the USD to AFS.

The rates used by HALO for translation of expenditure to the GBP are;

	<b>Apr-11</b>	<b>May-11</b>	<b>Jun-11</b>	<b>Jul-11</b>	<b>Aug-11</b>	<b>Sep-11</b>
<b>US\$/GBP</b>	1.603	1.664	1.646	1.603	1.632	1.630
	<b>Oct-11</b>	<b>Nov-11</b>	<b>Dec-11</b>	<b>Jan-12</b>	<b>Feb-12</b>	<b>Mar-12</b>
<b>US\$/GBP</b>	1.564	1.562	1.562	1.542	1.569	1.587

<sup>1</sup>Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of HALO's management.

	<b>Apr-12</b>	<b>May-12</b>	<b>Jun-12</b>	<b>Jul-12</b>	<b>Aug-12</b>	<b>Sep-12</b>
<b>US\$/GBP</b>	1.588	1.623	1.559	1.554	1.570	1.586
	<b>Oct-12</b>	<b>Nov-12</b>	<b>Dec-12</b>	<b>Jan-13</b>	<b>Feb-13</b>	<b>Mar-13</b>
<b>US\$/GBP</b>	1.622	1.608	1.604	1.614	1.578	1.516
	<b>Apr-13</b>	<b>May-13</b>	<b>Jun-13</b>	<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>
<b>US\$/GBP</b>	1.514	1.554	1.513	1.528	1.532	1.552

	<b>Oct-13</b>	<b>Nov-13</b>	<b>Dec-13</b>	<b>Jan-14</b>	<b>Feb-14</b>	<b>Mar-14</b>
<b>US\$/GBP</b>	1.612	1.607	1.633	1.648	1.648	1.665
	<b>Apr-14</b>	<b>May-14</b>	<b>Jun-14</b>	<b>Jul-14</b>	<b>Aug-14</b>	<b>Sep-14</b>
<b>US\$/GBP</b>	1.663	1.682	1.682	1.703	1.693	1.659
	<b>Oct-14</b>	<b>Nov-14</b>	<b>Dec-14</b>	<b>Jan-15</b>	<b>Feb-15</b>	<b>Mar-15</b>
<b>US\$/GBP</b>	1.623	1.600	1.576	1.554	1.513	1.550

The rate used by HALO for Afghanis to USD are those shown on the Payment Vouchers (PVs) and are the rates the bank gave HALO for the sale of USD.

### Significant Accounting Policies

#### Note 3. Variances

S-PMWRA-11-GR-0016 and S-PMWRA-12-GR-1007

There are no material variances reported by HALO management on the Funds Accountability Statement provided to the auditors, from which the consolidating Special Purpose Financial Statement per "Attachment A" is derived.

S-PMWRA-12-GR-1009, S-PMWRA-13-GR-1004, and S-PMWRA-13-GR-1006

None of the over or under-expenditures exceeds those allowable by PM/WRA according to HALO Management. During the years 2012 to 2015, HALO reviewed the budget provision for food and water, for which the allowable values decreased each day. The underspent funding in food and water offset increased national employee costs.

S-PMWRA-12-GR-1009

Supplies & Equipment: As detailed and taken from the Quarter 1 report. This budget provides for the purchase of a single mine-excavator, however the volume of work for the conventional excavators is such that HALO believes that an additional JCB unit would prove to be a far better purchase. In order to afford an additional machine HALO will need to significantly trim its current running cost lines, but believes that by doing so the purchase of the larger machine is possible.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds that have been reimbursed to HALO from PM/WRA for allowable, eligible costs incurred under the contract during the period of performance.

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

The budget categories presented and associated amounts reflect the budget line items presented within the final, PM/WRA approved budget adopted as a component of the proposal and any amendments made to it.

## Notes to the Questioned Amounts Presented on the Special Purpose Financial Statement<sup>2</sup>

### Note A: Questioned Costs – Personnel

Finding 2015-01 questions \$132,204 of incurred payroll costs and \$8,346 in associated indirect costs between April 1, 2011 and March 31, 2015 as a reasonable basis for the labor allocation billed to the project could not be determined for personnel who worked on multiple projects with multiple donors.

### Note B: Questioned Costs – Equipment and Supplies

Finding 2015-02, 2015-03, and 2015-04 questions \$38,781 in equipment cost, as a reasonable basis could not be determined for the eligibility of the charged amount, and \$19,135 in supplies for transactions that were missing supporting documents. Further, \$7,026 in supplies costs were considered ineligible as tax was not withheld from the supplier but paid to both the supplier and the government. We calculated \$4,175 of indirect costs associated with these unsupported or ineligible costs. In total, we questioned \$69,117 in equipment and supplies transaction costs.

### Note C: Questioned Costs – Total Cost Budget Line-item Overage

Finding 2015-05 questions \$15,108 in total budget line-item overages that were not approved by the United States Department of State, as required. As a result, we questioned the budget overage as ineligible costs.

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<sup>2</sup> Alphabetic notes to the questioned amounts presented on the special purpose financial statement were developed by and are the responsibility of the auditor.



## Independent Auditor's Report on Internal Control

Leadership Team  
 Hazardous Areas Life-Support Trust Organization  
 Washington, DC and Scotland, UK

Office of the Special Inspector General for Afghanistan Reconstruction  
 Arlington, VA

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Hazardous Areas Life-Support Trust Organization (HALO) grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015; and have issued our report thereon dated November 16, 2015.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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.

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 Finding 2015-01 to be a material weakness

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in internal control. We consider Findings 2015-02 and 2015-03 to be significant deficiencies and Findings 2015-04 and 2015-05 insignificant deficiencies in internal control.

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

*Williams, Adley & Company DC, LLP*  
Washington, D.C.  
November 16, 2015



### Independent Auditor's Report on Compliance

Leadership Team  
Hazardous Areas Life-Support Trust Organization  
Washington, DC and Scotland, UK

Office of the Special Inspector General for Afghanistan Reconstruction  
Arlington, VA

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Hazardous Areas Life-Support Trust Organization (HALO) grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015; and have issued our report thereon dated November 16, 2015.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

Compliance with agreement terms and laws and regulations applicable to HALO is the responsibility of HALO's management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of HALO's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our compliance tests disclosed one material instance of noncompliance, the effects of which are shown as questioned costs in the accompanying Schedule of Findings and Questioned Amounts under Finding 2015-01. We also noted immaterial instances of noncompliance, which are reported in Findings 2015-02, 2015-03, 2015-04, 2015-05, 2015-06, 2015-07, 2015-08 and 2015-09. We consider Findings 2015-01 and 2015-02 as potential indicators of fraud, waste or abuse during the period audited.

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We considered the material instance of noncompliance in forming our opinion on whether HALO's Statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 to the Statement, and this report does affect our report on the Statement dated November 16, 2015.

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

*Williams, Adley & Company - DC, LLP*  
Washington, D.C.  
November 16, 2015

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## Schedule of Findings and Questioned Amounts

### Finding 2015-01: Unsupported and Ineligible Payroll Costs (Material Weakness and Material Non-Compliance)

**Criteria:** OMB Circular A-122, under support of salaries and wages, it states that charges to grants for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to grants must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to grants. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to grants. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods.

**Condition:** We tested \$207,547 of \$8,159,538 in incurred payroll costs between April 1, 2011 and March 31, 2015. For employee's working multiple projects HALO did not maintain timesheets or other meaningful support for the way in which these payroll costs were allocated to its State Department grants subject to this audit. HALO commented that a time-study was conducted, however no time-study with approval from the State Department for the payroll system allocation of labor costs was provided to the auditors. HALO is supported by multiple donors. Nevertheless, HALO could not provide a reasonable basis for its methodology for allocation of labor costs. A total of \$132,204 of the \$207,547, or 63.7% of the labor costs tested, were based on an unsupported allocation methodology when staff had been assigned to more than one project.

**Cause:** HALO did not develop and implement sufficient internal controls to support its labor cost allocation methodology because administrative/support staff are responsible for multiple projects and HALO stated it was not practical to record the number of hours of work spent on a specific project by individual. HALO also does not issue timesheets for administrative/support staff as they are required by the national contract to work 47 hours per week. Instead, HALO allocates a set number of months per individual staff to a project during its lifetime as HALO's method for assigning labor costs that span multiple grants. HALO assumed the allocation method was acceptable as it has been used on a consistent basis and did not believe prior approval from the State Department was required for the specific allocation method used for those employees who worked on and were charged to multiple projects.

**Effect:** The absence of adequate controls relevant to after the fact documentation of the level of effort applied to the grants, and non-compliance with documentation requirements, resulted in payroll costs of \$132,204 costs and associated indirect costs of \$8,346 being questioned as unsupported costs. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged for activities under the grants and opportunities for waste, fraud, and abuse of government funds is increased. We estimate that cumulatively \$5,197,626, or 63.7% of the total payroll costs may be have been charged to the grants using an unapproved allocation methodology based our test results, which are based on a statistical sampling with a 95% confidence level and 5% tolerable error rate.

**Recommendation:** We recommend that HALO:

- a) Implement controls by updating procedures to: 1) record after the fact level of effort reporting and/or timesheets for its employees charged to and responsible for supporting multiple projects; or 2) obtain the required written approval of a reasonable allocation methodology by HALO's cognizant agency in lieu thereof.
- b) Provide the State Department with adequate support for the \$140,550 in questioned payroll costs in accordance with an acceptable cost allocation methodology or actual level of effort; or
- c) Reimburse the State Department for that portion of the \$140,550 in questioned costs and other allocated payroll costs under the grant for which adequate support could not be provided.

### **Finding 2015-02: Ineligible Equipment Cost (Significant Deficiency and Non-Compliance)**

**Criteria:** OMB Circular No. A-122, Cost Principles for Non-Profit Organizations, defines reasonableness and states that, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. Reasonableness of specific costs must be scrutinized with particular care in connection with organizations or

separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies". It also defines cost as being allocable to a particular cost objective such as a grant, contract, project, service or other activity in accordance with the relative benefits received.

Under Attachment B of OMB Circular A-122, section 15.b (1), capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. Section 15.b(4) further explains that when approved as a direct charge, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate by and negotiated with the awarding agency.

**Condition:** We tested \$2,120,785 of \$5,754,543 in non-payroll direct incurred costs between April 1, 2011 and March 31, 2015. During testing of supplies and equipment costs, the following exception for the purchase of equipment was noted:

1. Land rover (\$38,781.00)

The cost is ineligible because the year of purchase was 2008, three years before the first grant was issued. The full purchase price of the vehicle was billed to the grant in 2011. HALO management stated that the vehicle was not in service before 2011, therefore, no depreciation in value occurred. However, the cost principles require capital expenditures to be charged in the period the cost was incurred, which would make the property an ineligible expenditure because it significantly preceded the date of the award. Further, the vehicle was used for only 26 days under the grant. Charging the grant the full cost of the vehicle three years after purchase and with very limited use on the grant does not meet the eligibility or cost reasonableness requirements in this instance.

### Summary of Questioned Costs - Equipment

Grant(s)	Description	Ineligible Questioned Costs	Indirect Questioned Cost	Total Questioned Costs
S-PMWRA-11-GR-0016	Land Rover	\$38,781.00	\$2,509	\$41,290
Totals		\$38,781.00	\$2,509	\$41,290

**Cause:** HALO asserted that it purchased Land Rovers in advance and in bulk to obtain volume discounts on this equipment. However, HALO did not consider that the purchase of a vehicle years in advance of the actual award would make the purchase ineligible for reimbursement under the grant without prior approval. HALO also did not seek prior approval of the purchase because the State Department had not yet issued the grant to which HALO eventually charged the purchase.

**Effect:** In the absence of sufficient and adequate documentation to support cost reasonableness or eligibility for the equipment, we could not determine that the cost of the vehicle charged to the State Department was eligible. As a result, we questioned the allowability of \$41,290 in incurred costs.

**Recommendation:** We recommend that HALO provide the State Department with records that clearly support the allowability of the \$41,290 in questioned costs presented above or reimburse the State Department for those amounts for which appropriate support is not provided.

### **Finding 2015-03: Unsupported Supply Costs (Significant Deficiency and Non-Compliance)**

**Criteria:** Title 22 CFR, section 145.53, Retention and Access Requirements for Records, states that “financial reports, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the department”.

#### **Condition:**

##### *Unsupported Questioned Costs - Supplies*

1. Accommodation (\$301)

There were no quotations obtained for the above costs. According to the Purchase Request Approval procedures, a purchase request form must be completed for non-vehicle maintenance purchases exceeding \$250.00.

2. Food & Water (\$8,088)

HALO did not obtain at least 3 quotations although there were a number of suppliers registered with AISA.

3. Fuel & Lubricants (\$8,780)

Payment of goods with cash could not be confirmed.

4. Vehicle Maintenance (\$1,573)

Sole source justification provided states that there was only one dealer available for procurement of vehicle maintenance components like oil, filter, tires etc. This amount includes approximately \$567 for which competitive quotations were not obtained and \$1,006 in payments to the police department that could not be confirmed. As the justification provided no further support, the rationale for the sole source procurements could not be determined. The auditors were able to verify that the procurement of oversized tires was justified on a non-competitive basis and removed these transactions from the questioned cost.

5. Vehicle Registration (\$393)

Payment to the police department cannot be confirmed. Supporting documentation not provided.

**Summary of Questioned Unsupported Costs - Supplies**

Grant(s)	Description	Unsupported Questioned Costs	Indirect Questioned Cost	Total Questioned Costs
S-PMWRA-12-GR-1007, S-PMWRA-13-GR-1004, S-PMWRA-13-GR-1006, S-PMWRA-11-GR-0016.	Accommodation Food & Water Fuel & Lubricants Office Equipment Vehicle Maintenance Vehicle Registration	\$19,135	\$1,219	\$20,354
Totals		\$19,135	\$1,219	\$20,354

**Cause:** HALO did not develop and implement sufficient internal controls to ensure that appropriate documentation to support costs incurred was maintained and readily available for review for all grant costs. Further, HALO did not develop and maintain sufficiently robust motor pool policies and procedures such that all vehicle related costs could be properly tracked and assigned to vehicle-specific maintenance and mileage records for improved internal controls over vehicle usage and maintenance costs.

**Effect:** In the absence of sufficient and adequate documentation to support cost reasonableness, we could not determine that all costs charged to the State Department were allowable. As a result, we questioned \$20,354 in incurred costs for supplies.

**Recommendation:** We recommend that HALO provide the State Department with records that clearly support the allowability of the \$20,354 in questioned costs presented above or reimburse the State Department for those amounts for which appropriate support is not provided. We also recommend that HALO develop and implement a motor pool policy and procedures manual that improves internal controls over vehicle usage and maintenance records.

### **Finding 2015-04: Ineligible Costs Charged to Supplies (Internal Control Deficiency and Non-Compliance)**

**Criteria:** According to Afghanistan tax law, Article 72, Withholding tax on contractors (1) Persons who, without a business license or contrary to approved by-law, provide supplies, materials, construction and services under contract to government agencies,



municipalities, state entities, private entities and other persons shall be subject to 7 percent fixed tax in lieu of income tax. This tax is withheld from the gross amount payable to the contractor. (2) Persons who have a business license and provide the services and other activities mentioned in paragraph (1) of this Article to the specified entities shall be subject to 2 percent contractor tax. The tax levied by this paragraph is creditable against subsequent tax liabilities. (3) The tax mentioned in paragraph (1) and (2) of this Article shall be withheld by the payer from payment and shall be transferred to the relevant account within ten days. Contractors subject to this Article shall be required to, upon signing the contract, send a copy thereof to the relevant tax administration. Natural persons who, according to provision of paragraph (1) of Article 17 of this Law, earn taxable salaries shall be excluded from this provision.

As per Afghanistan tax law, Article 59, Payments of rent for buildings and houses which are rented to legal or natural persons and are used for business purposes or offices are subject to withholding tax as follows: (a) Where the monthly rent is from Afs 10,000 to Afs.100,000 -ten (10) percent. (b) Where the monthly rent is more than Afs.100,000 – fifteen (15) percent.

OMB Circular A-122, Cost Principles for Non-Profit Organizations defines cost as being allocable to a particular cost objective such as a grant, contract, project, service or other activity in accordance with the relative benefits received.

### **Condition:**

#### *Ineligible Questioned Costs - Supplies*

1. Accommodation (\$2,691)  
HALO is responsible to withhold tax from payment of rent and to submit the withheld tax to the government within a specified period of time. HALO paid rent including the tax to the landlord and also charged the withholding tax to the grant.
2. Food & Water (\$2,668)  
Withholding tax of 2% was not deducted from the supplier's invoiced amount, instead, the invoice was paid in full, including the tax. The 2% withholding tax was paid and charged to the grant, in addition to the supplier's invoiced amount.
3. Fuel & Lubricants (\$1,136)  
Withholding tax of 2% was not deducted from the supplier's invoiced amount, instead, the invoice was paid in full, including the tax. The 2% withholding tax was paid and charged to the grant in addition to the supplier's invoiced amount.
4. Office Equipment (\$531)  
This charge is for a replacement of a lost/stolen laptop. The laptop was not used for the project and therefore its replacement cannot be charged against this grant

## Summary of Ineligible Costs - Supplies

Grant(s)	Description	Ineligible Questioned Costs	Indirect Questioned Cost	Total Questioned Costs
S-PMWRA-12-GR-1007, S-PMWRA-13-GR-1004, S-PMWRA-13-GR-1006, S-PMWRA-11-GR-0016.	Accommodation Food & Water Fuel & Lubricants Office Equipment Vehicle Maintenance Vehicle Registration	\$7,026	\$447	\$7,473
Totals		\$7,026	\$447	\$7,473

**Cause:** HALO did not properly support costs and improperly charged grants because it did not have sufficient controls in place to ensure compliance with Afghanistan's laws for the withholding of taxes from purchases made using grant funds. The policies and procedures HALO has in place contained insufficient guidance and supervisory review of Afghanistan's tax laws and the payment of taxes.

**Effect:** In the absence of sufficient and adequate documentation to support cost eligibility for all disbursements tested, we could not determine that all costs charged to the State Department were allowable. As a result, we questioned \$7,473 in incurred costs.

**Recommendation:** We recommend that HALO provide the State Department with records that clearly support the allowability of the \$7,473 in questioned costs presented above or reimburse the State Department for those amounts for which appropriate support is not provided. Further, we recommend HALO implement sufficient policies and procedures with supervisory review of tax payments to improve controls in this area, and provide training on the revised procedures to ensure compliance with Afghanistan's tax laws.

### **Finding 2015-05: Budget Line-item Overage (Internal Control Deficiency and Non-Compliance)**

**Criteria:** Under 22 CFR, Subsection 145.25, Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section. The Department may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for awards in which the Federal share of the project exceeds \$100,000 and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget

as last approved by the Grants Officer. Grants Officers shall not permit a transfer that would cause any Federal appropriation or part thereof to be used for purposes other than those consistent with the original intent of the appropriation.

Further guidance received by the Grants Officer by email confirmed the application of a 10% absolute rule as the following terms and conditions require Grants Officer permission for the transfer of funds among direct cost categories where such cumulative transfers exceed 10% of total grant amount (this is over the total lifetime of the grant).

**Condition:** For grant S-PMWRA-12-GR-1009 there was a variance between budget and actual amounts on each line item. Although HALO adhered to the total approved budget, this condition caused the grantee to exceed the 10% variance threshold allowed without approval from the State Department. The grant was for \$1,107,900, which allowed total adjustments of \$110,790 without prior approval. The adjustments to actual expenditures totaled \$125,897.68, which exceeded the allowable variance without prior State Department approval by approximately \$15,108.

Budget Category	Total Grant Budget including Modifications and SF 424a	Total Funded (Based on PMS drawdown)	Total Costs (agrees to HALO's GL)	Budget to Actual Variance (in absolute values)
Personnel	\$520,303.00	\$520,303.00	\$563,409.17	\$43,106.17
Travel	\$14,300.00	\$14,300.00	\$17,302.17	\$3,002.17
Equipment	\$25,000.00	\$25,000.00	\$41,840.50	\$16,840.50
Supplies	\$483,619.00	\$483,619.00	\$420,729.89	\$62,889.11
<b>Total direct charges</b>	<b>\$1,043,222.00</b>	<b>\$1,043,222.00</b>	<b>\$1,043,281.73</b>	<b>\$125,837.95</b>
Indirect Charges (NICRA)	\$64,678.00	\$64,678.00	\$64,618.27	\$59.73
<b>Total</b>	<b>\$1,107,900.00</b>	<b>\$1,107,900.00</b>	<b>\$1,107,900.00</b>	<b>\$125,897.68</b>
			<b>Allowable adjustments</b>	<b>\$110,790.00</b>
			<b>Difference</b>	<b>\$15,107.68</b>

**Cause:** The budget to actual variance occurred because HALO did not have adequate budgetary controls in place to ensure the budgetary adjustments did not exceed the 10% allowance or to ensure proper approval was obtained prior to exceeding this threshold for budgetary line item adjustments. Adequate budgetary controls were not in place because HALO did not have procedures to track the cumulative effect of cost adjustments that would trigger State Department approval per regulatory requirements and management was not fully aware of these requirements.

**Effect:** The re-alignment of approximately \$15,108 in grant funds over and above allowable adjustments may result in funds being used in a manner contrary to grant objectives. Further, HALO's failure to adhere to budgetary approval regulations diminishes the effectiveness of the control mechanism and it undermines the State Department's control over the use of funds.

**Recommendation:** We recommend that HALO implement controls such as budgetary procedures that consider all the grant guidelines and requirements for cost adjustments, and provide training to those responsible for adhering to the budget related regulatory requirements to ensure compliance therewith. HALO also should provide evidence of State Department approval of the budget line item adjustments or reimburse the State Department for that portion of the approximately \$15,108 in budget line item adjustments that exceeded the allowable cumulative limit for which State Department approvals have not been obtained.

### **Finding 2015-06: Inventory Controls (Non-Compliance)**

**Criteria:** Under 2 CFR, Subsection 215.34, the recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

- (1) Equipment records shall be maintained accurately and shall include the following information.
  - (i) A description of the equipment.
  - (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
  - (iii) Source of the equipment, including the award number.
  - (iv) Whether title vests in the recipient or the Federal Government.
  - (v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.
  - (vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
  - (vii) Location and condition of the equipment and the date the information was reported.
  - (viii) Unit acquisition cost.
  - (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.
- (2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.

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

Title 22 CFR, Subsection 145.31, states that "recipients shall, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired with Federal funds as provided to property owned by the recipient".

**Condition:** HALO did not consistently capture the required information within its registers, such as serial number of inventory and traceable identifiable number. On items such as visors and aprons, HALO did not physically mark the visors with a traceable identifiable number. Further, HALO did not provide evidence of general ledger reconciliation of posted equipment costs to physical inventory records.

The auditors requested HALO's support for equipment insurance; HALO indicated they do not insure the equipment. Based upon our testing of both inventory and disbursements, we noted 10 items of equipment purchased with grant funds that had not been insured.

Item No.	Inventory Item	Price (USD)
7255*	Vehicle - 4x4 Land Rover	53,807.00
7672	JCB BACK HOE	49,205.00
7983	JCB Front End Loader	44,000.00
7984	JCB Back Hoe	44,000.00
8152	JCB	36,000.00
7372	Vehicle - 4x4 Land Rover	31,336.53
7982	JCB Excavator	30,000.00
8062	Generator -110KVA	5,500.00
8063	Generator -110KVA	5,500.00
3640	Heavy Vehicle	117,984.38

\*This vehicle is the same vehicle mentioned in finding 2015-02. The price listed above includes the cost of additional features to bring the vehicle to its current use.

**Cause:** Required information on inventory was not collected because HALO did not include proper controls within their policy and procedures related to inventory management, which detailed inventory control requirements. Further, HALO did not follow through on prior recommendations to improve its inventory management process as management did not institute and enforce timely corrective actions. Additionally, because the personnel responsible for maintaining inventory were not aware of the requirements for maintaining asset registers, the register did not capture the required information for assets purchased with grant funds.

**Effect:** HALO does not have effective control over the inventory process. Therefore, there is less assurance that inventory records are accurate, complete and current, and there is increased risk that equipment could be lost, damaged or stolen, or otherwise made unavailable for project use. The project may incur additional and unnecessary costs for lost or stolen items if proper insurance is not in place.

**Recommendation:** We recommend that HALO develop and implement a corrective action plan that includes a formal, written policy and procedures to address inventory management requirements including: record keeping, inventory counts, and reconciliations including supervisory review to ensure asset records fully account for purchased assets in accordance with regulatory requirements. It is further recommended HALO budget and insure equipment in accordance with regulatory requirements or provide evidence, on a cost-benefit basis, for not obtaining the required insurance.

### Finding 2015-07: Financial Reporting (Non-Compliance)

**Criteria:** Under 22 CFR, Subsection 145.52 on financial reporting, grantees are required to report financial information using form SF-425 or SF-425a, or such other forms as may be approved by OMB.

Directions per FFR form SF-425 state that cash disbursements are to be entered in field 10(b) as the cumulative amount of Federal fund disbursements (such as cash or checks) as of the reporting period end date. Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to sub recipients and contractors.

**Condition:** The auditors observed differences between the actual disbursements reported on the general ledgers we were provided, which was the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the grant and the amount of cash advances, and the amounts reported as disbursed on the FFR form SF-425 under field 10(b) for grant S-PMWRA-13-GR-1004. It is noted HALO did not draw down greater amounts than what was disbursed; therefore there is no monetary impact due to the errors in the amounts reported in field 10(b) on the FFR.

Period End	Net project disbursements per SF-425	Total Disbursement per GL	Difference amount over/(under) reported <sup>3</sup>
<b>Grant 13-GR-1004</b>			
6/30/2013	\$ 110,000.00	\$ 217,328.49	\$(107,328.49)
9/30/2013	\$ 313,674.98	\$ 198,956.73	\$ 114,718.25
12/31/2013	\$ 280,733.05	\$ 287,973.16	\$ (7,240.11)
3/31/2014	\$ 395,591.97	\$ 384,463.04	\$ 11,128.93
6/30/2014	\$ -	\$ 227,750.66	\$(227,750.66)

<sup>3</sup> Differences represented on the chart explain calculations performed by the auditors, the only amount that was not cleared due to timing differences was the total \$11,278.58.

Period End	Net project disbursements per SF-425	Total Disbursement per GL	Difference amount over/(under) reported <sup>3</sup>
9/30/2014	\$ 632,627.57	\$ 404,876.94	\$ 227,750.63
12/31/2014	\$ 328,851.43	\$ 327,892.66	\$ 958.77
3/31/2015	\$ 288,521.00	\$ 289,479.74	\$ (958.74)
<b>Total</b>			<b>\$ 11,278.58</b>

**Cause:** HALO did not accurately report disbursements on the grant financial report in question because HALO had underspent during the year what was budgeted for food and water provision. HALO attempted to submit a corrected report reflecting the unobligated amount of \$11,278.58 at the quarter ended March 31, 2015, however the status in the financial reporting system was labeled as started but not completed. This status was not addressed, therefore, the corrected financial report was not received by the State Department.

**Effect:** Inadequate reporting of program expenses may result in overstated or understated financial reporting to the State Department. Additionally, inaccurate financial reporting diminishes the State Department's ability to properly monitor the grant funds.

**Recommendation:** We recommend that HALO develop controls to ensure that required financial reports are prepared and submitted accurately, completely and on time.

### **Finding 2015-08: Debarment and suspension common rule (Non-Compliance)**

**Criteria:** Under 2 CFR, Subsection 215.13, Federal awarding agencies and recipients shall comply with Federal agency regulations implementing E.O.s 12549 and 12689, "Debarment and Suspension." Under those regulations, certain parties that are debarred, suspended or otherwise excluded may not be participants or principals in Federal assistance awards and subawards, and in certain contracts under those awards and subawards.

Under 2 CFR, Subsection 220, Debarment and Suspension (E.O.s 12549 and 12689)—A contract award with an amount expected to equal or exceed \$25,000 and certain other contract awards (see 2 CFR 180.220) shall not be made to parties listed on the government-wide Excluded Parties List System, in accordance with the OMB guidelines at 2 CFR part 180 that implement E.O.s 12549 (3 CFR, 1986 Comp., p. 189) and 12689 (3 CFR, 1989 Comp., p. 235), "Debarment and Suspension." The Excluded Parties List System contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than E.O. 12549.

**Condition:** HALO neither obtained certifications from nor verified the status for one contractor regarding debarment, suspension, ineligibility and voluntary exclusion from Federal awards. Although HALO has started to implement a procedure of checking on sam.gov for contractor status, the auditors still observed this one exception. The auditors verified through sam.gov that this contractor was not on the excluded parties list, therefore, no associated costs are questioned.

**Cause:** HALO did not have a system in place to ensure its policy to check all vendors on the excluded party listing system for suspension and debarment prior to procuring goods and services was followed. For example, although HALO maintains a Finance and Logistics Manual that includes procedures for verifying vendor eligibility through sam.gov, the HALO Afghanistan Finance Policy Manual did not contain any reference to vendor verification on sam.gov or the predecessor Excluded Parties List System. HALO Finance, which is responsible for ensuring that a sam.gov check is done on vendors prior to processing payment, did not ensure evidence was kept on file that such a check was done.

**Effect:** HALO could secure services from a party on the excluded party listing system that was suspended or debarred from participation in federal awards. This control deficiency could result in questioned costs if services are obtained from an excluded party using grant funds.

**Recommendation:** We recommend that HALO improve controls relating to its procurement policy for checking parties that are suspended or debarred from participation in Federal grants in all required instances by: 1) ensuring all policy and procedure manuals include appropriate guidance relating to vendor verification; and 2) conducting follow-up training with the individuals responsible for the vendor verification and payment process to ensure understanding and compliance with the stated procedures.

### **Finding 2015-09: No Withholding Tax (Non-Compliance)**

**Criteria:** According to Afghanistan tax law, Article 72, Withholding tax on contractors (1) Persons who, without a business license or contrary to approved by-law, provide supplies, materials, construction and services under contract to government agencies, municipalities, state entities, private entities and other persons shall be subject to 7 percent fixed tax in lieu of income tax. This tax is withheld from the gross amount payable to the contractor. (2) Persons who have a business license and provide the services and other activities mentioned in paragraph (1) of this Article to the specified entities shall be subject to 2 percent contractor tax. The tax levied by this paragraph is creditable against subsequent tax liabilities. (3) The tax mentioned in paragraph (1) and (2) of this Article shall be withheld by the payer from payment and shall be transferred to the relevant account within ten days. Contractors subject to this Article shall be required to, upon signing the contract, send a copy thereof to the relevant tax administration. Natural



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persons who, according to provision of paragraph (1) of Article 17 of this Law, earn taxable salaries shall be excluded from this provision.

As per Afghanistan tax law, Article 59, Payments of rent for buildings and houses which are rented to legal or natural persons and are used for business purposes or offices are subject to withholding tax as follows: (a) Where the monthly rent is from AFS 10,000 to AFS.100,000 -ten (10) percent. (b) Where the monthly rent is more than AFS.100,000 – fifteen (15) percent.

**Condition:** During disbursement testing the auditors noted 24 exceptions where taxes had not been deducted from suppliers and on rent, but the invoices had notations wherein the suppliers and landlord agreed to pay the taxes owed. Although no questioned costs resulted from these transactions, the transactions violated Afghan tax laws.

**Cause:** Afghan tax laws were violated because HALO did not have proper controls in place to ensure taxes were paid in accordance with Afghan law.

**Effect:** HALO may be subject to fines and back payment of taxes by the Afghanistan government for which the U.S. government is not responsible and that are not allowable costs under the grants.

**Recommendation:** We recommend that HALO implement controls to ensure taxes are withheld and paid in accordance with Afghanistan Law.

## Attachment A – Consolidating Special Purpose Financial Statement

For the Period of April 1, 2011 to March 31, 2015

	S-PMWRA-11-GR-0016		S-PMWRA-12-GR-1007		S-PMWRA-12-GR-1009		S-PMWRA-13-GR-1006		S-PMWRA-13-GR-1004	
Revenues	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Revenue	\$1,056,000	\$1,056,000	\$6,500,000	\$6,500,000	\$1,107,900	\$1,107,900	\$3,750,000	\$3,750,000	\$2,350,000	\$2,338,721
Cost Element										
Personnel	\$474,987	\$477,051	\$3,897,129	\$3,895,223	\$520,303	\$563,409	\$2,160,174	\$2,140,960	\$1,101,245	\$1,082,894
Fringe	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,000	\$6,569
Travel	\$14,000	\$16,442	\$32,166	\$36,157	\$14,300	\$17,302	\$22,704	\$27,431	\$30,721	\$31,035
Equipment	\$101,280	\$106,569	\$77,499	\$77,499	\$25,000	\$41,841	\$0	\$11,470	\$276,482	\$268,662
Supplies	\$404,080	\$394,285	\$2,113,733	\$2,115,476	\$483,618	\$420,730	\$1,348,195	\$1,353,714	\$813,567	\$829,362
<b>Total Direct Charges</b>	<b>\$994,347</b>	<b>\$994,347</b>	<b>\$6,120,527</b>	<b>\$6,124,355</b>	<b>\$1,043,221</b>	<b>\$1,043,282</b>	<b>\$3,531,073</b>	<b>\$3,533,575</b>	<b>\$2,228,015</b>	<b>\$2,218,522</b>
Indirect Costs (NICRA)	\$61,653	\$61,653	\$379,473	\$375,645	\$64,679	\$64,618	\$218,927	\$216,425	\$121,985	\$120,199
<b>TOTAL Cost</b>	<b>\$1,056,000</b>	<b>\$1,056,000</b>	<b>\$6,500,000</b>	<b>\$6,500,000</b>	<b>\$1,107,900</b>	<b>\$1,107,900</b>	<b>\$3,750,000</b>	<b>\$3,750,000</b>	<b>\$2,350,000</b>	<b>\$2,338,721</b>
Outstanding Balance (deficit)		\$0		\$0		\$0		\$0		\$0

(Continued)  
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## Attachment B – Prior Audit Reports Recommendations and Current Status

Prior audits, assessments or reviews that we considered applicable to the scope of our work were obtained and read to ensure that there were no significant deficiencies or material weaknesses noted. We did note significant deficiencies over internal controls in the prior audit reports. For significant and non-significant deficiencies affecting the grant grants, we performed test work to ensure proper corrective action was taken to resolve the impact of the deficiencies on the project. From a total of 5 distinct audit findings in prior audit reports, we closed 2 of the audit findings as being adequately addressed.

### KPMG prior audits of HALO

We obtained and reviewed HALO's A-133 audit reports for the years ended March 31, 2013, March 31, 2014 and March 31, 2015. For each year, the auditors reported significant deficiencies over internal controls over major programs.

**Findings 2013-001, 2014-001, 2015-001:** The prior audits disclosed, during payroll testing over salaries and wages, the lack of adequate controls, such as missing attendance records for 4 employees sampled out of 158 and non-employee expenses misclassified as labor costs, which resulted in questioned costs. It was recommended management reinforce its policy and ensure that attendance records and payroll are completed accurately and maintained with sufficient management oversight.

**Current Status:** This finding was included in this audit report, as the auditors noted that HALO did not have proper oversight of payroll and record keeping for after the fact reporting of effort charged to the grants. As a result, we concluded that HALO had not taken adequate corrective action to address this prior recommendation for payroll.

**Findings 2013-002, 2014-002:** The March 31, 2013 and 2014 audit reports disclosed, during procurement testing, that management was unable to provide reasonable justification for the lack of competition for sole source procurement in 12 out of 75 samples selected.

**Findings 2013-002, 2014-002, 2015-002:** In addition, the March 31, 2013, 2014 and 2015 audit reports included a finding for contracts and procurements that were made without verification of the contractors and vendors against the excluded parties' list system.

It was recommended that management update its current policies and procedures to require documentation of the justification for the lack of competitive bidding and to verify that vendors are not on the Excluded Parties List System for those procurements in excess of \$25,000.

**Current Status:** These issues were included in this audit report as findings. The auditors noted that HALO had one exception of not verifying a contractor against the excluded parties' list system, although HALO has started to improve the policy by checking sam.gov. We also noted sole source procurements or procurements with less than 3 bids without a reasonable justification. As a result, we concluded that HALO had not taken adequate corrective action to address either of these prior recommendations for procurement.

**Finding 2013-003:** On the March 31, 2013 audit report, it was noted that capital expenditures were not excluded from total direct costs when calculating indirect costs, which resulted in indirect costs being recognized in excess of the amount allowed based on the applicable Negotiated Indirect Cost Rate Agreement (NICRA). It was recommended that management adhere to the guidelines of their current NICRA by excluding capital expenditures and sub-awards greater than \$25,000, if applicable, from the indirect cost base.

**Current Status:** We concluded that HALO did take adequate corrective action to address this recommendation as we did not observe exceptions to the NICRA calculations.

**Finding 2014-003:** In the March 31, 2014 audit report, for 5 advances out of 70 tested, the cash advances were not timed as close as administratively feasible to the actual disbursement. In these cases, it was determined disbursements were made within 26 to 76 days after receipt of the advance. It was recommended that management continue to refine its process to ensure that cash advances are requested as close as administratively feasible to when the cash will be disbursed at the local overseas location.

**Current Status:** We concluded that HALO did take adequate corrective action to address this recommendation based on our fieldwork.

## Attachment C – Management Response

Humanitarian  
mineclearance in

Afghanistan	Kosovo
Angola	Laos
Armenia	Mozambique
Burma/Myanmar	Nagorno Karabakh
Cambodia	Somalia
Colombia	Sri Lanka
Georgia	West Bank
Ivory Coast	Zimbabwe
Central African Republic	



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### *Summary of Management Comments on Audit Report*

The audit process took considerable time and effort with minimal notice periods. The strict deadlines set by the auditor, to which HALO was obliged to work, were inflexible and did not take into consideration HALO's prior commitments. On the other hand, on the auditor's side, dates were moved and commitments not kept without consideration or negotiation.

Examples of this are:

- Williams Adley advising the requirement to be hosted at HQ for a week with one month's notice.
- RBCO failing to attend on the day to which they had committed, and not attending regularly.
- RBCO taking 5 weeks in Kabul to perform their work, compared with the 2 weeks that had been advised.
- 7 weeks from the exit conference to the draft final report, instead of the advised 2 weeks.

Some of the findings are due to a lack of understanding and mis-communication through a language barrier by RBCO, and Williams Adley not taking the time to review these findings with HALO prior to their inclusion in the draft reports.

In Afghanistan national legislation is typically subject to frequent changes. The audit team in Kabul had a habit of referring to current day situations without considering the changes that have occurred in Afghanistan since 2011.

Full written responses are provided in Annex B, however in summary:

#### **Finding 2015-01:**

HALO disputes that it does not have attendance records and points out that its current payroll records system does meet requirements.

#### **Finding 2015-02:**

HALO disputes the finding and the Kabul audit team (RBCO) was provided with a full explanation about HALO's stock system delivering VFM.

#### **Finding 2015-03:**

HALO strongly disputes each of the findings

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**Finding 2015-04:**

HALO agrees that the \$531 was incorrectly allocated. However, the audit team did not understand the process of net agreements with suppliers. HALO does withhold tax and pay this over to MTO; there is categorically no duplication of payment within HALO's accounts.

**Finding 2015-05:**

HALO does have financial management reports which are distributed to the Afghanistan team on a monthly basis. Since 2012-2013 and the issue of the variance requirements HALO has ensured that 10% is absolute value, not per Budget category.

**Finding 2015-06:**

The audit looked back from 2011 to 2015. HALO initiated this reconciliation and, since 2013, has carried out an annual review of all Capital Equipment registers and inventory records in line with donor requirements.

**Finding 2015-07:**

HALO considers one finding within its PMS reporting, which occurred due to a PMS system error, as immaterial.

**Finding 2015-08:**

HALO's procurement procedures (both in narrative and flow diagram format) clearly demonstrate that the Debarment and Suspension requirement is an integral part of its procedures. HALO sets the requirement to verify the debarment at a much lower level than \$25,000 per annum set in the OMB guidelines. HALO always takes measures to ensure compliance with donor regulations.

**Finding 2015-09:**

This is a repeat of the findings under number 2015-04.



Alexandra Denton  
Finance Manager

8 February 2016

Humanitarian  
mineclearance in:

Afghanistan	Kosovo
Angola	Laos
Armenia	Mozambique
Burma/Myanmar	Nagorno Karabakh
Cambodia	Somaliland
Colombia	Sri Lanka
Georgia	West Bank
Ivory Coast	Zimbabwe
Central African Republic	



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**Finding 2015-01: Unsupported and Ineligible Payroll Costs (Material Weakness and Non-Compliance)**

HALO Afghanistan classifies its 3000+ employees into 3 categories, Operations, Support and Guards.

HALO does have records of attendance and times of work for the period which the unsupported payroll costs fall into (pre 2012) for all national employees. However, they are not held in the personnel files of the employee but in the records of the minefield, which appears to have caused confusion with RCBO. HALO Finance did visit the program during the period of audit and can confirm that attendance records did exist. In addition to this all of the A133 sampling did not highlight lack of attendance records. Although all of the sample pre 2012 did not satisfy the audit team, it can be concluded from the lack of comment relating to post 2012 files that these were indeed in place and hence that the current payroll record system does meet requirements.

**Finding 2015-02: Ineligible Equipment Cost (Significant Deficiency and Non-Compliance) Land rover (\$38,781.00)**

There has been a fundamental misunderstanding by the audit team here. The HALO Trust (The HALO Trust (USA), Inc.'s related UK registered company) purchased over 50 Land Rovers directly off the production line for stock (note stock, not fixed assets). This was not only for mechanical reasons but also to provide Value for Money through Economies of Scale to the donors. These vehicles, as they became available from production, were moved to HALO's logistics base in the UK and held there until they were prepared and deployed to any country as required. As programs and funding became available, the vehicles were prepared (additional works done) to the standard of the country to which they were shipped and the respective costs were allocated against the grant funding **AT THIS POINT WHEN THE VEHICLE WAS FREIGHTED** to the end user.

The HALO Trust USA, (Inc). had the requirement and funding to purchase this asset under the grant.

The grant was signed with a period of performance from 1 April.

In April the vehicle was moved from the logistics base to the supplier to be converted to a field ambulance and prepared for the armor to be upgraded.

In May the vehicle had the armor fitted.

In July all export papers were ready for the vehicle to be freighted to Afghanistan.

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The fact that it did not become available in Kabul until February was far outside HALO's control, and was due to a series of freight issues after July while the vehicle was en-route to Afghanistan.  
The vehicle was used on all subsequent grants to support the project.

**Finding 2015-03: Unsupported Supply Costs (Significant Deficiency and Non-Compliance)**

**Accommodation (\$301)**

A misunderstanding: the landlord quotes a net figure that he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

**Food & Water (\$8,088)**

HALO received 2 quotes, which in December 2012 were all that were available. When the audit team state "there were a number of suppliers registered with AISA", they are not looking at a list from the date of the transaction but a current day status. Afghanistan has come a long way in what may seem a short period of time.

**Fuel & Lubricants (\$8,780)**

Payment of goods with cash could not be confirmed.

The supplier would not be paid via bank or cheque, which at the time were not trusted payment methods within Afghanistan. Cash was taken from the safe, after approval of the purchase, and signed for by the procurement team; they then returned to the supplier to pay the invoice and receive the goods.

The safe book shows the cash being signed out on an open voucher for payment of this invoice and supply. HALO deems this to be proof that the payment of goods (and subsequent receipt of supplies) can be confirmed.

**Vehicle Maintenance (\$1,573)**

Sole source justification provided states that there was only one dealer available for procurement of vehicle maintenance components such as oil, filter, tires etc. This amount includes approximately \$567 for which competitive quotations were not obtained and \$1,006 in payments to the police department that could not be confirmed. As the justification provided no further support, the rationale for the sole source procurements could not be determined. The auditors were able to verify that the procurement of oversized tires was justified on a non-competitive basis and removed these transactions from the questioned cost.

**Vehicle Registration (\$393)**

The police department would not issue any paperwork for payment of registration, nor would they sign anything. There were, however, HALO internal papers to back up the PV.

**Finding 2015-04: Ineligible Costs Charged to Supplies (Internal Control Deficiency and Non-Compliance)**

**Accommodation (\$2,691)**



A misunderstanding: the landlord quotes a net figure he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

**Food & Water (\$2,668)**

A misunderstanding: the supplier quotes a net figure that he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

**Fuel & Lubricants (\$1,136)**

A misunderstanding: the supplier quotes a net figure that he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

**Office Equipment (\$531)**

HALO reply – agreed this should not be charged to the grant,

**Finding 2015-05: Budget Line-item Overage (Internal Control Deficiency and Non-Compliance).**

HALO does have financial management reports which are distributed to the Afghanistan team on a monthly basis. The overage on the equipment line was reported in a quarterly narrative report, but not revised through a formal request on Grant Solutions.

Since 2012-2013 and the issuance of the variance requirements HALO has ensured that 10% is absolute value, not per Budget category.

**Finding 2015-06: Inventory Controls (Non-Compliance)**

The audit looked back from 2011-2015. HALO initiated this reconciliation and, since 2013, has carried out regular reviews of all Capital Equipment registers and inventory records.

**Finding 2015-07: Financial Reporting (Non-Compliance)**

The table as presented is misleading and looks as though HALO incorrectly over drew and under drew funds against the grant. In addition to this, the wording suggests that there were numerous (multiple) occasions on which this error was found, when in fact there was one. HALO has amended the table to demonstrate when the funds were available to draw on the Payment Management System (PMS). The \$11,278 was reported on PMS in the quarter to 30 June 2015, as the contract was ongoing, however it appears that somewhere within PMS the data was rejected. HALO provided the audit team with a print of the data being corrected. PMS is temperamental in its operation and complicated in its FCTR which does not reconcile to the grant totals; the formal financial report submitted with the narrative report was accurate.

13-GR-1004					
Period End	Available funds to draw	Net project disbursement (from PMS)	Total Disbursement per GL (expenditure)		Difference
6/30/13	110,000.00	110,000.00	217,328.49	-	107,328.49
9/30/13	40,000.00	313,674.98	198,956.73		114,718.25
12/31/13	950,000.00	280,733.05	287,973.16	-	7,240.11
3/31/14		395,591.97	384,463.04		11,128.93
6/30/14			227,750.66	-	227,750.66
9/30/14	1,250,000.00	632,627.57	404,876.94		227,750.63
12/31/14		328,851.43	327,892.66		958.77
3/31/15		288,521.00	289,479.74	-	958.74
<b>TOTAL</b>	<b>2,350,000.00</b>	<b>2,350,000.00</b>	<b>2,338,721.42</b>		<b>11,278.58</b>

**Finding 2015-08: Debarment and suspension common rule (Non-Compliance)**

It is categorically incorrect to state HALO does not have a system in place. HALO's procurement procedures (both in narrative and flow diagram format) clearly demonstrate that this requirement is an integral part of its procedures which in fact set the requirement to verify the debarment at a much lower level than \$25,000 per annum. HALO always takes measures to ensure compliance with donor regulations. This is conducted through presentations, internal audits and written communications. At each point below, debarment and suspension was highlighted.

Currently – Spot checks are conducted on programs purchasing assets in country  
 September 2015 – Post audit email sent out to programs  
 December 2014 – Training session held at Annual Meeting  
 January 2014 – Procurement work flow diagram issued globally with guidelines on how to use sam.gov  
 January 2013 – Global issue of standard sam.gov stamp for verification  
 December 2012 – Training and detailed explanation at Annual Meeting

You may ask if our message is getting across if we continue to re-visit points, however it is felt that as employees change roles and as national staff develop it is important to re-visit key compliance points.

**Finding 2015-09: No Withholding Tax (Non-Compliance)**

HALO is looking to find those suppliers who are registered with the AISA (Afghanistan Investment Authority); the tax calculation for those suppliers who have AISA licenses is only 2%, whereas those who are not registered will be liable to 7% tax payment. All HALO Annual Financial Declaration Statements known as "Izhar nama" up to 1393 (2014) had been vetted and accepted by the Ministry of Finance MTO (Medium Tax Payers Office). HALO has now changed the way that contracts are written with various suppliers and vendors, so that tax payment as per the Tax Law will be the sole responsibility of the suppliers, but HALO will deduct the amount of tax due from the supplier and will pay to the Central Bank of Afghanistan (Da Afghanistan Bank) and will keep the receipts attached to the original invoice. This

will ensure that taxes are paid and that they are deducted from suppliers by HALO. Thus HALO ensures that tax is paid to the Government and we keep a record of the payments.

#### HALO's Prior Audit Report and Recommendations

In Attachment C Williams Adley list 5 Findings, 4 of which have a "Current Status" underneath them, 1 has no "Current Status". Williams Adley deem that 2 are cleared and 2 are not cleared but fail to assess the 5th. HALO deems that there are 3 cleared and 2 not cleared.

Of the 2 not cleared, Finding 2014-003 refers to Finding 2015-07: Financial Reporting (Non-Compliance) of this report. HALO feels that it has taken measures to ensure PMS reporting is compliant, but again re-iterates that PMS only allows reporting on grants where funding is released and consolidates the data by the value of funds released, not the value of the grant; hence it becomes difficult for the user to reconcile. This is why Financial Reports are attached to the narratives.

In the same attachment Williams Adley list the following finding "Findings 2013-001, 2014-001, 2015-001:" as containing unallowable expenses for 1 employee that were added into salary expenses. Williams Adley have mis-interpreted some data;

2015-001 1 attendance record missing  
2014-001 1 attendance record missing  
2013-001 1 attendance record missing

At no point does KPMG list unallowable employee expenses within these findings.



Alexandra Denton  
Finance Manager

8 February 2016

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## Attachment D – Auditor’s Response to Management Comments

Williams Adley, in consideration of the views presented by HALO management, presents the following rebuttal or clarification to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist the users of the report in their evaluation of the findings and recommendations included in this report. In those instances where management’s response did not provide new information or support to modify the facts and circumstances of the findings and where management agrees with the findings presented, we have not provided a response.

### Finding 2015-01

HALO management states in its response that attendance records for unsupported payroll costs for all National employees are available in the records of the minefield. This finding pertains to the unavailability of support for the manner in which these payroll costs were allocated across State Department grants or the approval from State Department for use of an alternate system of allocation. HALO management’s response does not address the cause or substance of this finding and as such these costs remain questioned.

### Finding 2015-02

HALO management’s response to this finding does not address whether or not they received approval from the State Department for the purchase of the vehicle prior to commencement of the grant. The amount in this finding was questioned due to the lack of approval from the State Department. HALO management’s response does not bring any new information to light and as such this cost remains questioned.

### Finding 2015-03

Accommodation: The amount in question pertains to HALO’s inability to provide the auditors with necessary support. HALO management’s response does not address the requirement and as such this cost remains questioned.

Food & Water: HALO claims that at the time of purchase from this supplier there were only two AISA registered vendors, and as such, they were unable to get three quotations. HALO did not have any documentation to support this claim during fieldwork as such this cost remains questioned.

Fuel and lubricants: This finding remains questioned as payment of goods cannot be confirmed using internal records created by HALO. An invoice with a paid stamp from the supplier is required.

Vehicle registration: HALO management states in its response that they have internal documentation available to support this cost. HALO's internal documentation, even if provided, may be considered insufficient independent evidence to support this cost. As a result, the questioned cost remains unchanged.

#### **Finding 2015-04**

Accommodation, Food & Water, Fuel & Lubricants: Withholding tax must be deducted from the amount stated on the suppliers/landlords invoice. The taxes withheld must then be paid to the Afghan government within a specified period of time. HALO is currently not withholding the tax, instead, they are paying the invoice in full and also charging the withholding tax to the grant. HALO management's response does not bring any new information to light and as such these costs remain questioned.

#### **Finding 2015-05**

There was no formal approval request made for the overages observed in the budget line items and as such this cost remains questioned.

#### **Finding 2015-06**

HALO management agreed with this finding and stated in its response that beginning in 2013, they put systems in place to review capital equipment registers. HALO's response did not address the lack of insurance for equipment purchased with grant funds.

#### **Finding 2015-07**

The table presented by Williams Adley represents the difference between the disbursements that were observed in HALO's general ledger and what was reported to Department of State as per form SF-425. The table does not mention draw of funds by HALO at all, although there is a statement in the condition section of the finding clarifying the fact that HALO did not draw funds in excess of what was expended. The table presented by Williams Adley accurately reflected all instances where HALO did not report their disbursements accurately for Grant 13-GR-1004 based on the general ledger HALO provided to us for this grant. Out of 8 reporting periods presented, there were 8 periods where HALO did not report disbursements accurately when compared to its general ledger, which should reflect HALO's expenditure activities. HALO's response did not address the finding we presented, and as such, the finding remains as stated.

**Finding 2015-08**

Williams Adley agrees that HALO has policies and procedures in place to verify vendor eligibility through sam.gov, however, the enforcement of the policies and procedures is the focus of this finding. Management's comments were non-responsive to the stated issue, and as a result, this finding remains as stated.

**Finding 2015-09**

HALO management in its response stated that it has changed the way that contracts are written with suppliers and vendors so that tax payments will be the sole responsibility of the suppliers, but also stated that it would deduct the tax amount due and pay it to the Central Bank of Afghanistan. These contradictory statements are confusing and do not provide reasonable assurance that this issue has been adequately addressed. We recommend that HALO revisit this issue and clarify a corrective action that unambiguously addresses the finding to ensure compliance with Afghan tax laws.

**Prior Audit Report Findings and Recommendations**

HALO management contends that we did not list the current status of 1 of the 5 categories of findings for prior audit reports we reviewed, and that 3 of the 5 findings should be cleared. HALO further stated that we misinterpreted data relating to attendance records and used the term "unallowable employee expenses", which is a term not included in KPMG's reports.

We believe HALO is confused as to our placement of the current status naming convention that we used. As the second and third categories of findings were generally associated with the same finding numbers (2013-002, 2014-002 and 2015-002), we used one current status paragraph to describe our assessment of the two issues presented in those findings, i.e., checking for excluded parties and documenting non-competitive justifications, neither of which was fully resolved based on our testwork. As such, 3 of the 5 prior audit findings remain as current issues.

We are unsure how our statement concerning the missing attendance records is different than management's statement saying the same thing. HALO may have blended the comment concerning missing attendance records with the comment concerning unallowable employee expenses, which was a different issue. The KPMG report included a condition in finding 2015-001 that stated HALO's policy of classifying payments for lost crops and road access as casual labor, while perhaps allowable costs, should not be categorized as labor for non-employees not subject to time and effort reporting requirements. We agree with HALO that the term "unallowable expenses for one employee" should not have been used and that a more accurate term, "non-employee expenses were misclassified as labor costs," should have been used to describe the prior audit finding. The report was updated to reflect this more accurate terminology.

**The HALO Trust USA, Inc.**

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**Auditor's Rebuttal to HALO's Responses to Audit Findings**

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**Rebuttal on HALO US**

HALO US did not clearly state if it agrees or disagrees with any of the findings and recommendations we identified. Auditor's rebuttal to the HALO US responses received related to the audit findings identified in this report are presented below:

**(1) Finding 2024-01:**

HALO US responded to the finding's recommendation without directly addressing the finding itself. They indirectly addressed the need for a revision to their subrecipient monitoring policies by stating they oversaw the development and implementation of HALO UK's revised financial operating procedures and systems.

**Auditor's Rebuttal:**

HALO's assertions to and referencing of the revised financial operating procedures and systems do not address the conditions observed during the audit. Based on our audit observations and evidence reviewed, HALO US did not have sufficient subcontractor monitoring procedures and oversight in place. Its subcontractor, HALO UK, did not provide evidence that the cost allocation methodology used was compliant with federal guidelines as it relies on budget estimates. HALO UK did not perform an analysis after costs were incurred or actual timekeeping to determine if the amounts allocated to the Program were appropriate. As such, our finding and recommendations remained unchanged.

**(2) Finding 2024-02:**

HALO US responded to the finding's recommendation without addressing the finding itself. They responded to the recommendation by stating they will continue to validate their subcontractor's adherence to 2 CFR 200 requirements.

**Auditor's Rebuttal:**

It is unclear if HALO US's statement, that it will "continue to validate adherence to 2 CFR 200," implies that Management believes the *condition* reported is untrue. Nevertheless, in our audit we did not see evidence that timesheets captured actual time worked by project. HALO US did not provide any additional evidence, as such, our finding and recommendation remain unchanged.

**(3) Finding 2024-03:**

HALO US responded to the finding's recommendation without addressing the finding itself. HALO US stated that during the audit period, Afghanistan experienced a rapid deterioration in security, as such, HALO USA was unable to perform field visits and relied on remote oversight procedures of the subrecipient.

(Continued)

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**Auditor's Rebuttal:**

The finding recommended HALO US provide cost monitoring guidance to HALO UK. However, HALO US's response focused on the security situation in Afghanistan, and their inability to perform a field visit without explaining how that situation impacted their ability to provide cost-monitoring guidance remotely. Furthermore, the procedures HALO US referenced did not capture the issues related to inadequate timekeeping procedures and practices. As such, our finding and recommendations remain unchanged.

**(4) Finding 2024-04:**

HALO US responded to the finding's recommendation without addressing the finding itself. HALO US stated they carry out remote oversight of HALO UK in addition to subrecipient monitoring visits to a standard form, including adherence to procurement policy and procedures.

**Auditor's Rebuttal:**

It is unclear what remote oversight HALO US is referring to. Their compliance visits/checks were apparently insufficient because our testing, nevertheless, identified 24 transactions requiring but lacking evidence of competitive procurement. As such, our finding and recommendations remain unchanged.

**(5) Finding 2024-05:**

HALO US responded to the finding's recommendation without addressing the finding itself. HALO US stated they carry out remote oversight of HALO UK in addition to subrecipient monitoring visits to a standard form, including adherence to travel policy and procedures.

**Auditor's Rebuttal:**

HALO US asserts they perform remote oversight of HALO UK's travel policies and procedures. However, our review did not indicate that there was adequate monitoring of travel costs, as there were travel costs that were not supported with adequate documentation, and unapproved travel costs for an employee's travel partner. As such, our finding and recommendations remained unchanged.

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**(6) Finding 2024-06:**

HALO US responded to the finding's recommendation without addressing the finding itself. HALO US stated that they will continue to validate HALO UK's adherence to 2 CFR 200, through remote sampling of transaction data and sub-recipient monitoring procedures.

**Auditor's Rebuttal:**

HALO US's repeated assertion of "continuing to validate HALO UK's adherence to 2 CFR 200", is not responsive to the finding or the recommendation. The finding identified a situation where HALO UK billed the government for ineligible expenses - excess coats purchased in error - a problem that could have been mitigated with subrecipient monitoring policies. HALO US' response discussed changes to HALO UK's policies and operating procedures but does not address its insufficient subrecipient monitoring procedures. As such our finding and recommendation remain unchanged.

(Continued)

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**Rebuttal on HALO UK**

HALO UK did not clearly state if it agrees or disagrees with Finding 2024-01, Finding 2024-02, Finding 2024-04 and 2024-06; and partially agreed with the questioned cost for Finding 2024-03, Finding 2024-05. Auditor's rebuttal to the HALO UK's responses received related to the audit findings identified in this report are presented below:

**Executive Summary**

HALO UK stated their 2016 allocation methodology – the method covering costs charged under the current audit - was approved by the cognizant agency as well as new systems, policies and procedures including the capability to allocate shared costs proportionally in real time.

**Auditor's Rebuttal**

HALO UK's allocation methodology for the period under audit was based on budget estimates and lacked after the fact analysis or other real time study to allocate share costs.

**Prior SIGAR Audit Corrective Actions**

HALO UK stated based on the prior SIGAR audit in 2020, it had implemented a new accounting system that utilized an automated allocation of shared costs based on actual data, such as staff assigned to each program.

**Auditor's Rebuttal**

HALO UK's repeated references to their new systems are not directly relevant to this finding as they were not implemented until after the period of the audit and were not used to prepare the financial data reviewed by Conrad. During our audit, HALO UK did not demonstrate its accounting system allocated shared costs in alignment with federal requirements.

**Audit Findings**

**Finding 2024-01:**

**HALO UK Response:**

***Allocation of Shared Costs Using Budget Estimates***

- In 2016, HALO UK received approval for and implemented a CFR compliant allocation methodology.
- All expenditures allocated to the grants were based on the actual transaction cost of each item of expenditure

(Continued)

## The HALO Trust USA, Inc.

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### **Auditor's Rebuttal to HALO's Responses to Audit Findings**

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- HALO's cost allocation methodology ensured each donor funding the Afghanistan programme received a fair share of the total support costs – with fair share defined as a donor's proportion of total funding provided to the programme.

#### ***HALO Split Casual Labor Charges Between Two Projects without Sufficient Documentation Supporting the Allocation***

HALO UK stated the casual labor charges were related to storing explosives and are equally shared among three donors equally as they were all funded in the same capacity.

#### ***HALO Allocated Shared Costs Among Multiple Projects Without Methodology Support***

HALO UK claimed they implemented an approved cost share methodology.

#### **Auditor's Rebuttal:**

##### ***Allocation of Shared Costs Using Budget Estimates***

- While HALO UK received approval for a 2016 and 2020 proposed allocation methodology, two things are clear:
  - The allocation methodology was not CFR compliant, because it allowed for the use of budget estimates; and it did not require, and HALO did not perform an after the fact analysis of costs. More specifically, as demonstrated in Annex 2 of HALO UK responses it was noted that, employees using this methodology prepared their timesheets based on their budgeted months. HALO UK did not perform a subsequent analysis of the allocation to ensure that a reasonable and documented basis was used consistent with the requirements of 2 CFR 200.405. This is a clear violation of the 2 CFR requirements as stated in our finding. It was also unclear why the State would approve such an allocation method that is not in line with 2 CFR requirements.
  - HALO UK used the remaining available budget to allocate \$178,686 of shared costs. Not only is this method not CFR compliant, but the practice is also not described in the 2016 or 2020 methodology documents presented to the State for approval.
- HALO UK claims 100% of the expenditure allocated to the grant were based on actual transaction costs. The audit evidence did not demonstrate all allocated costs were related to the program.
- HALO UK's statement that their allocation methodology "...ensured each donor funding the HALO UK Afghanistan programme received a fair share of the total support costs..." demonstrates a complete misunderstanding of federal cost-share guidelines. Federal

(Continued)

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guidelines emphasize allocation of costs based on proportional benefit not proportional funding. Furthermore, there was no evidence that HALO used any methodology other than the remaining available budget.

***HALO Split Casual Labor Charges Between Two Projects without Sufficient Documentation Supporting the Allocation***

The evidence provided indicated the costs were shared equally between the three projects without any further evidence demonstrating how the three projects benefited equally from the casual labor charges.

***HALO Allocated Shared Costs Among Multiple Projects Without Methodology Support***

HALO's claim does not address the condition, as HALO did not provide support demonstrating its allocation methodology.

Our finding and recommendations remain unchanged.

**Finding 2024-02**

**HALO UK Response:**

HALO UK stated they implemented a cost share methodology with prior written approval issued by the United States Department of State.

***Personnel National Staff***

HALO indicated that National Staff personnel provide support to multiple delivery teams and donors across multiple locations. They also indicated that their treatment of the interrelated costs is informed by 2 CFR 200.405, where actual costs were charged to the grant on a proportional basis.

***Personnel Casual Labor; Travel; Supplies; Indirect Costs***

In each of these cases HALO UK noted that each transaction was supported by evidence demonstrating the allocation. In some cases, like Casual Labor and Supplies, HALO incorrectly implied that the costs were allocated.

**Auditor's Rebuttal:**

***Personnel National Staff***

(Continued)

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HALO's response does not make sense, because it contends that the support staff costs are shared and should be allocated across multiple projects and donors. However, the finding reports that the presumably shared costs were charged 100% to the program – without evidence demonstrating the costs were 100% allocable to the program. In addition, if these employees were shared among multiple projects, it is very clear that HALO UK had overcharged the U.S. government under this award. As such our finding and recommendation remain.

***Personnel Casual Labor; Travel; Supplies; Indirect Costs***

HALO UK did not provide evidence during the audit or within the rebuttal that the costs were 100% allocable to the grant. As such, our finding and recommendations remained unchanged.

**Finding 2024-03**

**HALO UK Response:**

***Fringe Benefits***

HALO UK agreed with the issue identified in Finding 2024-03 regarding fringe benefits costs

***Payments Made to Non-Employees for Supplies***

HALO UK disagreed that the payments were made to non-employees stating that the individuals receiving cash were part of a purchase committee and were employees of HALO. They also disagreed with the conclusions that the transactions lacked sufficient documentation to demonstrate they were allocable to the program, and the need for policies and procedures related to allocation, documentation and retention. Specifically, they asserted that in instances where a supplier cannot be paid directly via bank transfer, a check will be issued to a member of the purchase committee who will cash the check and pay the vendor, and the vendor will in turn sign for receipt of the cash.

**Auditor's Rebuttal:**

***Fringe Benefits***

No rebuttal as HALO UK agreed that the costs should be disallowed from the grant.

***Payments Made to Non-Employees for Supplies***

Based on our testing, contrary to HALO UK's statement that the individuals receiving payments were part of the purchase committee, we noted that the persons who received cash were not included on the program's list of employees. In addition, documentation evidencing that the vendor received cash was never provided.

Our finding and recommendations remain unchanged.

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**Finding 2024-04****HALO UK Response:*****Fringe Benefits***

HALO UK indicated they used a UK-based broker to navigate the insurance market and provide coverage for the activities it delivers in its operating countries. HALO UK stated they can share correspondence and walkthrough of the process if required.

***Travel***

HALO UK stated they can share a walkthrough of the two (2) suppliers in question and indicated that both suppliers were sole source.

***Supplies***

HALO UK stated that due to the sensitive nature of the items stored, alternative solutions were restricted through the local governing authority.

***Safe House Rental***

HALO UK stated when the rental agreement was due for renewal the team in Kabul did a market search but due to required specification alternatives were not available.

HALO UK also stated that it had enhanced its Procurement Policies in December 2020 and 2024 as well as additional training.

**Auditor's Rebuttal:**

As part of the audit process, HALO UK was given multiple opportunities to provide documentation to support their corporate procurement process, but sufficient documentation was never provided.

***Fringe Benefits and Travel***

HALO UK did not provide sufficient procurement documentation during the audit to demonstrating the proper procurement was performed on the insurance vendor as well as the travel suppliers.

***Supplies***

HALO UK did not provide supporting documentation showing justification for its vendor selection even though there were multiple demining organizations available.

***Safe House***

(Continued)

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HALO UK stated they performed a market search but were not able to provide documentation showing that a search was carried out. In addition, HALO UK was unable to provide the original procurement documentation for the initial contract with the vendor.

Finally, as stated in the finding, even though HALO UK stated they had enhanced their procurement policies, we found the procedures were insufficient to ensure the staff were adequately following the policies.

Our finding and recommendations remain unchanged.

**Finding 2024-05****HALO UK Response:*****Missing Flight Tickets and Receipts for Costs Charged to the Program***

HALO UK acknowledged they were missing documentation. However, they stated they provided alternative documentation supporting the charges.

***Missing Invoice and Proof of Payments for Local Transportation***

HALO UK indicated that these costs relate to employee's travel to their homes at the end of the monthly cycle. HALO UK stated that travel to remote villages is achieved with informal travel links with no way to produce formal invoices or proof of payment.

***Travel Costs for Employee's Travel Partners Without Funding Agency Approval***

HALO UK acknowledged the issue identified in Finding 2024-05, related to travel costs incurred for an international staff employee's partner, was an ineligible cost and is not reimbursable under the program. HALO UK stated they have an accompanying partner policy indicating the cost was eligible for reimbursement. While the employee - whose partner was travelling with them - was not funded through the Program under audit, the employee worked full time in Afghanistan for HALO UK. HALO UK stated they will redesign their travel approval process to ensure that donor approval is acquired for spouse or partner travel.

**Auditor's Rebuttal:*****Missing Flight Tickets and Receipts for Costs Charged to the Program***

HALO UK acknowledged that the flight ticket and original documentation detailing flight information was missing from the supporting documentation. Sufficient alternative documentation was not provided.

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***Missing Invoice and Proof of Payments for Local Transportation***

HALO UK did not provide sufficient support to show these charges were fixed payments and we were not provided with a policy substantiating their practice. In addition, 2 CFR 200 required adequate documentation to support allowable costs.

***Travel Costs for Employee's Travel Partners Without Funding Agency Approval***

While HALO UK acknowledged this cost is ineligible, it was still charged to the program. HALO UK mentioned the employee was working full-time for HALO UK - however, the employee's status does not change the allowability of their partner's travel costs.

Our finding and recommendations remain unchanged.

**Finding 2024-06****HALO UK Response:**

HALO UK acknowledged the issue identified in Finding 2024-06 regarding the overcharge of winter coats to the Program. HALO UK acknowledged that 80 winter coats were purchased under this Program, which supported 67 persons. They asserted the excess coats were made available to employees to ensure there were enough dry coats during the cold and damp winter conditions. Additionally, HALO noted they revised their financial operating procedures to ensure that transactions are fully reviewed prior to being released into the general ledger.

**Auditor's Rebuttal:**

HALO UK did not provide evidence that the excess coats were later used by the program staff assigned to this program. Of interest, during our audit and exit conference, HALO UK did not indicate the excess coats were an intentional purchase.

Our finding and recommendations remain unchanged.

(Continued)



## 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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## SIGAR's Mission

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