

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-64 Financial Audit**

USAID's Afghanistan Media Development  
and Empowerment Project: Audit of  
Costs Incurred by Internews Network



JUNE  
2015

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On November 1, 2010, the U.S. Agency for International Development (USAID) signed a 1-year cooperative agreement worth \$21.9 million with Internews Network (Internews) to implement the Afghanistan Media Development and Empowerment Project. The project was intended to develop Afghanistan's media sector nationwide through supporting regional broadcast stations, building capacity for local media outlets, and increasing access to media technology. After 13 modifications, the total approved budget of the cooperative agreement increased to nearly \$32 million, and the period of performance was extended to December 31, 2013.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$32,697,186 in expenditures charged to the agreement from November 1, 2010, through December 31, 2013. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Internews's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Internews has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Internews's Special Purpose Financial Statement. See Crowe Horwath's report for the precise audit objectives.

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

June 2015

## USAID's Afghanistan Media Development and Empowerment Project: Audit of Costs Incurred by Internews Network

SIGAR 15-64-FA

### WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified two material weaknesses and two significant deficiencies in Internews Network's (Internews) internal controls, and three instances of material noncompliance with the terms and conditions of the cooperative agreement. Combined, the internal control deficiencies and instances of noncompliance resulted in four findings relating to cash management, reporting requirements for financial statements and monitoring and evaluation plans, reconciliation of program income, and the calculation of indirect costs. Internews's calculations for indirect costs for "General and Administration" included payments to some subrecipients, even though its Negotiated Indirect Cost Rate Agreement and Office of Management and Budget guidance required excluding all subawards. Therefore, Internews may have overbilled USAID by \$194,446.

As a result of these internal control deficiencies and instances of noncompliance, Crowe Horwath identified \$194,446 in questioned costs, all consisting of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. The questioned costs did not include any ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

| Category       | Ineligible | Unsupported      | Total Questioned Costs |
|----------------|------------|------------------|------------------------|
| Indirect Costs | \$0        | \$194,446        | \$194,446              |
| <b>Totals</b>  | <b>\$0</b> | <b>\$194,446</b> | <b>\$194,446</b>       |

In addition, Crowe Horwath found that Internews drew down more funds than required in order to meet immediate cash needs, resulting in a \$2,717 loss in interest to the U.S. government.

Crowe Horwath did not identify any prior reviews or assessments that pertained to Internews's implementation of the Afghanistan Media Development and Empowerment Project or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on Internews's Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the USAID Agreement Officer:

1. Determine the allowability and recover, if appropriate, \$194,446 in questioned costs identified in the report.
2. Collect \$2,717 in interest from Internews.
3. Advise Internews to address the report's four internal control findings.
4. Advise Internews to address the report's three noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

June 18, 2015

The Honorable Alfonso E. Lenhardt  
Acting Administrator  
U.S. Agency for International Development

Mr. William Hammink  
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by Internews Network (Internews) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Afghanistan Media Development and Empowerment Project (AMDEP).<sup>1</sup> Crowe Horwath's audit covered \$32,697,186 in expenditures charged to the cooperative agreement from November 1, 2010, through December 31, 2013.<sup>2</sup> Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the USAID Agreement Officer:

- 1. Determine the allowability and recover, if appropriate, \$194,446 in questioned costs identified in the report.**
- 2. Collect \$2,717 in interest from Internews.**
- 3. Advise Internews to address the report's four internal control findings.**
- 4. Advise Internews to address the report's three noncompliance findings.**

The results of Crowe Horwath's audit are further detailed in the attached report. We reviewed Crowe Horwath's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Internews's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Internews's internal control or compliance with the contract, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-044)

<sup>1</sup> USAID awarded cooperative agreement number 306-A-00-10-00533-00 to Internews to implement AMDEP, which was intended to develop Afghanistan's media sector nationwide through supporting regional broadcast stations, building capacity for local media outlets, and increasing access to media technology.

<sup>2</sup> In addition to auditing the \$31,800,705 in incurred costs, Crowe Horwath's audit also reviewed \$896,381 in program income earned by Internews under AMDEP.



**Internews Network, Inc. (Internews)**  
**Special Purpose Financial Statement**  
**Afghanistan Media Development and Empowerment Project (AMDEP)**  
**For the Period November 1, 2010 through December 31, 2013**  
**(With Independent Auditor's Report Thereon)**

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## Transmittal Letter

May 19, 2015

To the President and Management of Internews Network  
876 7th Street  
Arcata, CA 95521 USA

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of Internews Network's (Internews') cooperative agreement with the United States Agency for International Development (USAID) that funded the Afghanistan Media Development and Empowerment Project (AMDEP).

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

When preparing our draft report, we welcomed comments, feedback, and interpretations of Internews, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases. Management has provided written responses, which are incorporated into the final report and are followed by the auditor's rebuttal.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of Internews' AMDEP program.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring", written over a horizontal line.

Bert Nuehring, CPA, Partner  
Crowe Horwath LLP



[www.crowehorwath.com](http://www.crowehorwath.com)

## Summary

### Background

Internews Network, Inc. (Internews) entered into a cooperative agreement with the United States Agency for International Development (USAID) to implement the Afghanistan Media Development and Empowerment Project (AMDEP). The goal of the AMDEP is to ensure the existence of a strong, independent, pluralistic media sector that provides accurate trusted news and information for audiences around the country. The AMDEP program was funded by cooperative agreement number 306-A-00-10-00533-00, which had an original estimated award amount of \$21,902,355 and a period of performance of November 1, 2010 through October 31, 2011. Ten modifications were subsequently issued that increased the award amount to \$31,800,705 and extended the period of performance to December 31, 2013.

The project's objectives were to:

- Increase the reach and professional skills of independent media by providing regional broadcast media support to stations and training centers.
- Empower individual and/or amateur voices through increased access to technology.
- Collaboration with new Mobile News Services.
- Improve media sector networking, coordination and legal environment in which Afghanistan's media operate through support for Media Solidarity, Advocacy and Literacy.
- Build the sustainability of private media outlets and capacity of public regulatory bodies by assisting media outlets to address specialized capacity building needs; assist with business-friendly government regulation of the airwaves and licensing procedures).

As reported by Internews, results of the AMDEP (unaudited by Crowe) included, but were not limited to the following:

- Trained 21,557 people through 2,020 courses,
- Assisted 65 non-state news outlets,
- Opened two new regional hubs in Herat and Kandahar,
- Hosted two Innovation Labs in Kabul and sponsored two media law moot courts.

### Work Performed

Crowe Horwath LLP (Crowe) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of Internews' AMDEP program for the period from November 1, 2010 through December 31, 2013.

### Objectives Defined by SIGAR

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

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

Express an opinion on whether the Special Purpose Financial Statement for cooperative agreement number 306-A-00-10-00533-00 presents fairly, in all material respects, revenues received, costs incurred, and balance for the period audited in conformity with the terms of the award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

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

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

#### *Audit Objective 3 – Compliance*

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

#### *Audit Objective 4 – Corrective Action on Prior Findings and Recommendations*

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

## Scope

The scope of the audit included the period November 1, 2010 through December 31, 2013, for the AMDEP program. Over the course of the project, Internews incurred \$31,800,705 in Federal program costs. In addition, Internews earned \$896,381 in program income that was expended on the AMDEP program bringing total program costs to \$32,697,186. The audit was limited to those matters and procedures pertinent to the agreement that have a direct and material effect on the Special Purpose Financial Statement (SPFS) and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Activities;
- Allowable Costs;
- Cash Management;
- Equipment and Property Management;
- Period of Availability of Federal Funds;
- Procurement;
- Program Income;
- Reporting;
- Subrecipient Monitoring; and
- Special Tests and Provisions.
  - Key Personnel

## Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS. Transactions were tested to determine if they were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered

by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

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

Audit Objective 3 requires that tests be performed to obtain an understanding of the Internews' compliance with requirements applicable to the agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between Internews and USAID, the Code of Federal Regulations (CFR), – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, vouchers submitted to USAID for payment, procurements, property and equipment dispositions, subcontracts issued under the task order and corresponding costs incurred, and project reports for audit. Supporting documentation was provided by Internews and subsequently evaluated to assess Internews' compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the cooperative agreement restrictions, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both Internews and USAID related to prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We reviewed the annual reports for Internews for the audit period and did not note any items that affected the AMDEP.

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

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified four findings because they met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the agreement; and/or (4) questioned costs resulted from an identified instance of noncompliance.

Crowe also reported on both Internews' compliance with the applicable laws, rules, regulations, and the terms and conditions of the agreement and the internal controls over compliance. Two material weaknesses in internal control (2013-03, 2013-04), two significant deficiencies in internal control (2013-01, 2013-02), and three instances of noncompliance required to be reported in accordance with Government Auditing Standards (GAS) (2013-01, 2013-02 and 2013-04) were reported. When internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. Our findings resulted in \$194,446 of questioned costs to the AMDEP program as presented in **TABLE A** contained herein. In addition, Crowe reported any material instances of fraud or abuse related to the task order under audit. No such instances of fraud or abuse were noted during our audit.

In addition to Table A, Crowe also noted that, due to Internews having drawn down more funds than required to meet immediate cash needs, the Government lost a calculated \$2,717 in interest. This matter is discussed in detail within finding 2013-01.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to Internews' financial performance under the agreement. Per communications with Internews and USAID, there were no such reviews or assessments conducted that pertained to Internews' implementation of the project and that are direct and material to the SPFS. Crowe, therefore, did not conduct follow-up on corrective action pertaining to any such reports.

Crowe issued an unmodified opinion on the SPFS.

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

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

| Finding Number                | Matter                     | Questioned Costs | Cumulative Questioned Costs |
|-------------------------------|----------------------------|------------------|-----------------------------|
| 2013-01                       | Cash Management Procedures | \$0              | \$0                         |
| 2013-02                       | Reporting                  | \$0              | \$0                         |
| 2013-03                       | Program Income             | \$0              | \$0                         |
| 2013-04                       | Indirect Costs             | \$194,446        | \$194,446                   |
| <b>Total Questioned Costs</b> |                            |                  | <b>\$194,446</b>            |

Combining the \$194,446 of questioned costs reflected in Table A above and the calculated \$2,717 in interest due to Internews having drawn down more funds than required to meet immediate cash needs, it is recommended that total amount of \$197,163 be remitted to USAID.

### **Summary of Management Comments**

Management partially agreed with findings reported in the Schedule of Findings and Questioned Costs (2014-01, 2014-02, 2014-03). Management disagreed with finding 2014-04. Management did not agree with the cause of finding 2014-01 stating that they were aware of the requirements but the finding resulted from a lack of internal documentation. Internews disagreed with the portion of finding 2014-02 related to the monitoring and evaluation (M&E) plan. Internews stated that the agreement did not explicitly state that Internews must submit the M&E plan as an independent document. Management agreed with the remaining elements of finding 2014-02. Management disagreed with the classification of finding 2014-03. Management stated that that they incorrectly understood “costs incurred under USAID Cooperative agreement” to be only federal expenditures, not the additive program income expenditures. Management did not agree with finding 2014-04, as they did not agree that payments to subrecipients should not be part of the general and administration (G&A) cost base. .

### **Reference to Appendix**

The auditor’s reports are supplemented by two appendixes. **Appendix A** includes the Views of Responsible Officials, which are management’s responses to the findings presented within the report. **Appendix B** includes Crowe’s rebuttal to the management responses.

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

To the President and Management of Internews Network, Inc.  
876 7th Street  
Arcata, CA 95521 USA

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

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

We have audited the Special Purpose Financial Statement (the Statement) of Internews Network, Inc. (Internews), and related notes to the Statement, for the period November 1, 2010 through December 31, 2013, with respect to implementation of the Afghanistan Media Development and Empowerment Project (AMDEP) funded by agreement number 306-A-00-10-00533-00.

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

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix IV of Solicitation ID11140014 (the Contract). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

(Continued)

## **Opinion**

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

## **Basis of Presentation**

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by Internews in accordance with the requirements specified by the Agreement and presents those expenditures as permitted under the terms of cooperative agreement number 306-A-00-10-00533-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Agreement referred to above. Our opinion is not modified with respect to this matter.

## **Restriction on Use**

This report is intended for the information of Internews, USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

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

In accordance with *Government Auditing Standards*, we have also issued reports dated May 19, 2015, on our consideration of Internews' internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Internews' internal control over financial reporting and compliance.



Crowe Horwath LLP

May 19, 2015  
Washington, D.C.

**Internews Networks**  
**Special Purpose Financial Statement**  
**Cooperative agreement number 306-A-00-10-00533-00**  
**For the Period November 1, 2010 through December 31, 2013**

|                             | Budget            | Actual            | Questioned Costs |                     | Notes |
|-----------------------------|-------------------|-------------------|------------------|---------------------|-------|
|                             |                   |                   | Ineligible       | Unsupported         |       |
| <b>Revenues:</b>            |                   |                   |                  |                     |       |
| USAID 306-A-00-10-00533-00  | \$ 31,800,705     | \$ 31,800,705     | \$ -             | \$ -                | 4     |
| Program Income              | -                 | 896,381           |                  |                     | 9     |
| <b>Total Revenue</b>        | <u>31,800,705</u> | <u>32,697,086</u> | <u>-</u>         | <u>-</u>            |       |
| <b>Costs Incurred:</b>      |                   |                   |                  |                     |       |
| Direct Costs:               |                   |                   |                  |                     | 5     |
| Direct Payroll              | 2,682,710         | 2,662,143         | -                | -                   |       |
| Fringe                      | 1,212,834         | 1,203,368         | -                | -                   |       |
| Consultants                 | 1,675,475         | 1,721,583         | -                | -                   |       |
| Local Labor                 | 3,344,906         | 3,271,111         | -                | -                   |       |
| Travel                      | 1,330,401         | 1,325,959         | -                | -                   |       |
| Supplies                    | 2,040,306         | 2,005,499         | -                | -                   |       |
| Equipment                   | 258,444           | 292,794           | -                | -                   |       |
| Other Direct Costs          | 5,377,101         | 6,059,161         | -                | -                   |       |
| Contractual                 | 1,627,090         | 1,402,716         | -                | -                   |       |
| Sub-grants                  | 6,269,024         | 6,635,706         | -                | -                   |       |
| Subtotal                    | <u>25,818,291</u> | <u>26,580,040</u> | <u>-</u>         | <u>-</u>            |       |
| Indirect Costs:             |                   |                   |                  |                     |       |
| Project Support             | 3,097,626         | 3,112,454         | -                | -                   |       |
| G&A                         | 2,884,788         | 3,004,592         | -                | 194,446             | A     |
| <b>Total Costs Incurred</b> | <u>31,800,705</u> | <u>32,697,086</u> | <u>-</u>         | <u>194,446</u>      |       |
| <b>Balance</b>              | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ (194,446)</u> | 6     |

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

**Internews Network**  
**Notes to the Special Purpose Financial Statement**  
**For the Period November 1, 2010 through December 31, 2013**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement Number 306-A-00-10-00533-00 ("Agreement") for the Afghanistan Media Development and Empowerment ("AMDEP") project for the period November 1, 2010 through December 31, 2013. Because the Statement presents only a selected portion of the operations of the Recipient, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Recipient. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures reported on the Statement reflect expenses incurred under the Agreement and are reported on an Other Comprehensive Basis of Accounting basis. Such expenditures are recognized following the cost principles contained in OMB Circular A-122 "Cost Principles for Nonprofit Organizations" (2 CFR Part 230), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. The dollar ("dollars") is the functional currency for Internews Network's worldwide operations. Transactions in currencies other than U.S. dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the Statements of Financial Position.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which Recipient is entitled to receive from USAID for allowable, eligible costs incurred under the Agreement during the period of performance.

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

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved Agreement budget adopted as a component of Modification 13 to the Agreement dated 22 September 2013. See Note 9 for details concerning program income, which was not budgeted.

**Note 6. Fund Balance**

The fund balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the agreement and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

**Note 7. Currency**

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

**Internews Network**  
**Notes to the Special Purpose Financial Statement**  
**For the Period November 1, 2010 through December 31, 2013**

**Note 8. Subrecipients**

Names of subrecipients and costs incurred for each subrecipient during the period are as follows:

| Name of Subgrantee  | Expense             |
|---|---------------------|
| Afghan Amputee Bicyclists for Rehabilitation and Recreation               | \$ 128,838          |
| Afghan Cultural House and Fine Art  | 179,778             |
| Assistance to Defend Woman Rights Organization                            | 125,105             |
| Awa Nama Productions  | 64,267              |
| bytes for All   | 13,264              |
| CAF   | 20,000              |
| NAI Supporting Open Media in Afghanistan                                  | 3,377,340           |
| Pajhwok Afghan News   | 564,489             |
| Salam Watandar  | 596,990             |
| Southern Western Afghanistan and Baluchistan Association for Coordination | 133,983             |
| The Welfare Association for the Development of Afghanistan                | 1,298,894           |
| Women Activities & Social Services Association                            | 132,758             |
| <b>Total</b>  | <b>\$ 6,635,706</b> |

**Note 9. Program Income**

Internews earned program income from selling radio advertisements as part of AMDEP. Program income was expended on AMDEP allowable costs and recorded accordingly in the SPFS to the appropriate program cost code. Program income was not budgeted in AMDEP, thus causing program expenses to exceed the budget in certain cost categories.

**Note 10. Subsequent Events**

Management of Internews has performed an analysis of the activities and transactions subsequent to the November 1, 2010 through December 31, 2013, period of performance. Management has performed their analysis through May 19, 2015.

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

### **Note A. Indirect General and Administration Costs**

Finding 2013-04 identified \$194,446 in questioned costs that resulted from Internews including subrecipient payments in excess of \$25,000 in their calculation of indirect general and administration costs. No supporting documentation was provided to support USAID's approval of this inclusion.

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<sup>1</sup> Notes to the Questioned Costs Presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.

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## Independent Auditor's Report on Internal Control

To the President and Management of Internews Network, Inc.  
876 7th Street  
Arcata, CA 95521 USA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (the Statement) of Internews Network, Inc. (Internews), and related notes to the Statement, for the period November 1, 2010 through December 31, 2013, with respect to implementation of the Afghanistan Media Development and Empowerment Project (AMDEP) funded by agreement number 306-A-00-10-00533-00. We have issued our report thereon dated May 19, 2015.

### Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period of November 1, 2010 through December 31, 2013, we considered Internews' internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Internews' internal control. Accordingly, we do not express an opinion on the effectiveness of Internews' internal control.

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

(Continued)

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2013-03 and 2013-04 described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies noted in Findings 2013-01 and 2013-02 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

### **Internews' Response to Findings**

Internews' response was not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

### **Restriction on Use**

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



Crowe Horwath LLP

May 19, 2015  
Washington, D.C.

## Independent Auditor's Report on Compliance

To the President and Management of Internews Network  
876 7th Street  
Arcata, CA 95521 USA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (the Statement) of Internews Network, Inc. (Internews), and related notes to the Statement, for the period November 1, 2010 through December 31, 2013, with respect to implementation of the Afghanistan Media Development and Empowerment Project (AMDEP) funded by agreement number 306-A-00-10-00533-00. We have issued our report thereon dated May 19, 2015.

### Management's Responsibility for Compliance

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2013-01, 2013-02, and 2013-04 in the accompanying Schedule of Findings and Questioned Costs.

### Internews' Response to Findings

Internews' 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 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.

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(Continued)

**Restriction on Use**

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

*Crowe Horwath LLP*

Crowe Horwath LLP

May 19, 2015  
Washington, D.C.

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(Continued)

## SECTION I: Schedule of Findings and Questioned Costs

### Finding 2013-01 – Cash Management Procedures

#### **Significant Deficiency in Internal Control and Non-Compliance**

Condition: During our testing of Internews' cash management procedures for the AMDEP, we noted that Internews made two advance payments to one of its sub-recipients, WADAN. These funds were not expended by WADAN within 30 days from when Internews drew down these funds from USAID. The table below summarizes our findings.

| Month                 | Cumulative Drawdown Amount | Cumulative Expenditures | Excess Cash | Days Outstanding | Daily Interest | Calculated Interest |
|-----------------------|----------------------------|-------------------------|-------------|------------------|----------------|---------------------|
| March-11              | \$ 735,000                 | \$ 182,217              | \$ 552,783  | 30               | 0.000983%      | \$ 163.07           |
| April-11              | 1,292,996                  | 284,153                 | 1,008,843   | 30               | 0.000810%      | 245                 |
| May-11                | 1,292,996                  | 372,781                 | 920,215     | 30               | 0.000636%      | 176                 |
| June-11               | 1,292,996                  | 682,573                 | 610,423     | 30               | 0.001250%      | 229                 |
| July-11               | 1,292,996                  | 877,390                 | 415,606     | 30               | 0.000580%      | 72                  |
| August-11             | 1,292,996                  | 1,107,097               | 185,899     | 30               | 0.019048%      | 1,062               |
| September-11          | 1,292,996                  | 1,170,834               | 122,162     | 14               | 0.045000%      | 770                 |
| October-11            | 1,292,996                  | 1,298,895               | -           | N/A              | N/A            | N/A                 |
| <b>Total Interest</b> |                            |                         |             |                  |                | <b>\$ 2,717</b>     |

Utilizing the interest rates identified by the United States Department of the Treasury for cash management purposes, the calculated amount of interest that would have been earned for drawdowns tied to these expenses is \$2,717.

In addition to the advance payments noted above, during our testing of the internal controls surrounding the cash management process, we noted that for 8 out of 8 drawdown requests tested, there was no documented review of the drawdown request prior to submission. Furthermore, adequate supporting documentation for drawdown requests was not retained. For the eight (8) items selected for testing, we noted that the Excel tracking spreadsheet for drawdown request calculations was not maintained. We also noted that only one hard copy of a summary page was maintained, thus we were not able obtain the supporting accounting data.

Criteria: Pursuant to 22 CFR Part 226.21, recipients should minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient.

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

Effect: A lack of procedures and effective control over cash management increases the likelihood that errors could be reported in invoices to the USAID including the inclusion of funds in excess of immediate cash needs thus potentially resulting overbillings of the USAID and/or an inefficient use of Federal funds.

Cause: At the time of the payments, program staff were not aware of the cash management requirements and as such were not monitoring for compliance with this requirement for subrecipient payments. In addition, the missing cash management support was attributed to the Internews' conversion to a new accounting system.

Questioned Costs: There are no questioned costs associated with this finding. The calculated amount to be remitted to USAID is \$2,717. Due to this amount pertaining to interest earned on advanced funds rather than costs incurred, the amount is not included on the Special Purpose Financial Statement as a questioned cost.

Recommendation: Internews should implement a policy and procedures to limit the time between billings to the federal government and the disbursement of federal funds by subrecipients. Specifically, the procedures should include, but not be limited to, disbursing federal funds to subrecipients based on actual disbursements or immediate cash needs of that subrecipient. .

In addition, we recommend that Internews remit the \$2,717 of calculated interest to USAID or provide documentation supporting why the amount is not due to USAID.

## **Finding 2013-02 – Reporting**

### **Significant Deficiency in Internal Control and Non-Compliance**

Condition: During our testing of the required financial and programmatic reports submitted by Internews for the AMDEP, we noted the following:

1. One out of six (6) reports tested did not contain all the required reporting components. Specifically, the quarterly SF425 for June 2011 did not include Federal Cash receipts, disbursements, or cash on hand. In addition, the report did not have program income reported on the report.
2. Four (4) out of six (6) reports tested did not have a documented review and approval prior to submission. Specifically, two (2) quarterly financial reports, one (1) quarterly performance report, and the final grant close out report did not have a documented review.
3. The Monitoring and Evaluation (M&E) plan was not submitted. Per the USAID contract agreement, “At the end of every 12 months of Program implementation, the Recipient shall provide USAID with an annual M&E report describing the results of the previous years’ work in terms of the Annual implementation plan and the agreed upon indicators.” We acknowledge that some criteria required under the M&E report was also included within quarterly performance reports, however, contract terms specifically discuss the submission of a separate annual M&E plan.

Criteria: Section A.5 Par 1 – Financial Reporting of the Agreement states that, “the recipient shall submit an original and two copies quarterly. Financial Reports shall be in keeping with 22 CFR 226.52. In accordance with 22 CFR 226.52, the SF 425 will be required on a quarterly basis.

In addition, Section A.5 Part 2 – Program Reporting of the Agreement states, “the recipient shall submit a monitoring and evaluation plan with the annual implementation plan; the M&E plan will be approved at the same time and with similar approval process as the annual implementation plan”. The section goes on to state that “These reports shall be due 30 calendar days after the end of each 12 months and contain the information listed in 22 CFR 226.51”.

Effect: USAID may have been unable to fully monitor Internews’ financial progress and performance under the contract and fully understand the projects’ programmatic impacts

Cause: Internews indicated that they had a verbal arrangement with USAID to issue monitoring and evaluation data as part of their quarterly progress reports instead of issuing the annual M&E report. In addition, the one incomplete quarterly SF 425 was an oversight by management.

Questioned Costs: none

Recommendation: We recommend that Internews require a supervisor, review and approve the reports prior to submission to USAID. In addition, we recommend that any arrangements made with USAID that differ from the requirements stated in the Agreement be documented in writing between the two parties.

## **Finding 2013-03 – Program Income**

### **Material Weakness in Internal Control**

Condition: During completion of our testing and reconciliation of Internews' AMDEP receipts and disbursements, an \$896,381 adjustment was noted to the SPFS for program income earned as part of the AMDEP. This adjustment affected both revenues and expenses. The adjustment was not identified until Crowe brought the item to the attention of Internews. The adjustment was made by Internews and is reflected in the SPFS included in this report.

Criteria: Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix IV of Solicitation ID11140014 (the Contract). Appendix IV of the Solicitation states that revenues of the program should be included in the SPFS. 22 CFR 226.24 – Program Income defines program income as revenue of the program and added to fund committed by USAID and the recipient to the project or program, and used to further eligible project or program objectives.

Effect: Errors noted in reporting of the SPFS may have an effect on other financial reports that could result in adjustments. In addition, not properly reporting program income could lead to improper tracking of program income and associated program income expenses.

Cause: The adjustment was due to the lack of Internews' financial system to track program income information in the same program code as the federal program. Program income was tracked in a separate project code within Internews' system.

Questioned Cost: none

Recommendation: Crowe recommends Internews implement a procedure to require supervisory review of all financial reports and schedules prepared for federal programs. In addition, reviews should be documented in writing (e.g. sign-off). We also recommend Internews complete a reconciliation of amounts expended including program income from its records to the federal agencies' records prior to completion and submission of financial reports.

## **Finding 2013-04 – Indirect General and Administration Costs**

### **Material Weakness in Internal Control and Non-Compliance**

**Condition:** Internews' calculation for indirect costs for General and Administration (G&A) included payments to subrecipients in the calculation. As cited in the criteria section of this finding, Internews' Negotiated Indirect Cost Rate Agreement (NICRA) states that the distribution base is total costs excluding G&A, contributions made to affiliates and pass-through subawards/subcontracts. Internews stated that they use the Simplified Allocation Method for allocating indirect costs. Internews made payments to subrecipients (i.e. subawards) in the amount of \$6,635,706 during the audit period. The breakdown of subrecipient payments by subrecipient is provided in Note 8 to the SPFS.

**Criteria:** Internews' NICRA with USAID states that the G&A base of application is "Total costs excluding G&A, contributions made to affiliates and pass-through subawards/subcontracts."

The Office of Management and Budget (OMB) Circular A122 – Cost Principals for Non-Profit Organizations, Attachment A states:

Section A.4. Allocable costs states.

- a. "A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
  - 2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received"

In addition, section D.2(a) Simplified Allocation Method states "Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by...(ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base". Section D.2(c) goes on to state, "The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or subgrants), direct salaries and wages, or other base which results in an equitable distribution.

**Effect:** USAID may have been over billed by \$194,446 for costs that are not reasonably proportionate to the benefits received.

**Cause:** Internews stated that the G&A cost base would only exclude pass-through subawards and not regular subawards. The NICRA and applicable OMB guidance do not make a distinction in their guidance between a pass-through subaward and a subaward. Internews incorrectly assumed that calculation of G&A costs did not exclude all subawards.

**Questioned Costs:** \$194,446

**Recommendation:** We recommend that Internews implement a process to ensure that distribution bases for indirect cost allocations are calculated in accordance with the NICRA and OMB guidance. Furthermore, we recommend that Internews complete a review of their indirect cost calculation and remit the \$194,446 of indirect costs to USAID or provide documentation supporting why the amount is not due to USAID.

## APPENDIX A: Views of Responsible Officials



Email [info@internews.org](mailto:info@internews.org) Web [www.internews.org](http://www.internews.org)  
Telephone +1 707 826-2030 Fax +1 707 826-2136  
P.O. Box 4448, Arcata, CA 95518 USA

To: Mark Marccini  
Senior Manager  
Crowe Horwath LLP

Date 08 May 2015

Dear Mr. Marccini

Attached please find Internews' response to the Crowe Horwath audit report submitted to the Office of the Special Inspector General for Afghanistan Reconstruction for the United States Agency for International Development (USAID) with respect to cooperative agreement 306-A-00-10-00533-00 awarded to Internews for the **Afghanistan Media Development and Empowerment Project (AMDEP)** for the period November 1, 2010 through December 31, 2013.

We appreciate the opportunity to respond to the observations and to provide additional information and clarification of our position regarding the following findings:

| Finding # | Finding level          | Item                       | Questioned Costs |
|-----------|------------------------|----------------------------|------------------|
| 2013-01   | Significant Deficiency | Cash Management Procedures | \$0              |
| 2013-02   | Significant Deficiency | Reporting                  | \$0              |
| 2013-03   | Material Weakness      | Program Income             | \$0              |
| 2013-04   | Material Weakness      | Indirect Costs             | \$194,446        |

As detailed in our responses in the following pages, Internews contests all of the questioned costs and the severity of the level of each finding.

Internews continues its strong support of USAID's implementation of critical programs assisting in the development of democracy and governance in Afghanistan.

Sincerely,

David Creekmore, COO  
Internews Network, Inc.

## INTERNEWS MANAGEMENT RESPONSE TO AUDIT FINDINGS

### GENERAL RESPONSE TO FINDINGS

In conducting its field work and as reported to us during the March 12<sup>th</sup> 2015 Audit Exit Conference, we note the auditor did not claim to uncover any questionable activities including fraud, abuse, mismanagement, illegal acts or falsification of records.

The largest and most significant issue communicated at the Exit Conference was related to Internews application of its NICRA to sub-award costs. In response Internews prepared a thorough written explanation to the auditor detailing and appropriately justifying its NICRA application in refute of the finding. The auditor chose not to share this explanation with USAID or SIGAR prior to drafting the audit report.

The additional identified findings on internal controls were found as isolated instances of cash management procedures and reporting issues. There was no evidence that controls were ineffective in preventing or detecting noncompliance. Therefore there was no internal control deficiency related to the control design or control objective. If anything, a minor deficiency existed in the control because the person(s) performing the control did not consistently possess the necessary authority to perform the control effectively.

Ordinarily, controls that are relevant to an audit pertain to the entity's objective of preparing financial statements that are fairly presented in conformity with generally accepted accounting principles, including the management of risk that may give rise to a risk of material misstatement in those financial statements. We acknowledge it is a matter of the auditor's professional judgment as to the controls or combination of controls that should be assessed, however we believe that insufficient attention has been given regarding qualitative factors of the risk assessment and evaluation of potential control deficiencies. According to Generally Accepted Audit Procedures, in exercising their judgment, the auditor should consider qualitative factors, the circumstances, the applicable component, and including but not limited to the following:

- The potential effect of the misstatement on trends, especially trends in profitability.
- The sensitivity of the circumstances surrounding the misstatement, for example, the implications of misstatements involving fraud and possible illegal acts, violations of contractual provisions, and conflicts of interest.
- The significance of the misstatement or disclosures relative to known user needs
- The definitive character of the misstatement
- The risk that possible additional undetected misstatements would affect the auditor's evaluation.
- The motivation of management with respect to the misstatement,
- Reasonably possible future consequences of the deficiency

As such we disagree with the use of terms “*material weakness*” and “*significant deficiency*” in describing the purported deficiencies. Instead, we believe that, because of the actual facts and circumstances of program requirements and applicable financial control systems, there was neither a significant deficiency nor material weaknesses that would have prevented Internews from detecting and correcting any material misstatements.

We have developed our internal control process in order to provide reasonable assurance that it will achieve certain objectives concerning the reliability of our financial reporting, the effectiveness and efficiency of our programmatic operations, and compliance with laws and regulations. Risk factors affect whether there is a reasonable possibility that a deficiency will result in a misstatement, and had hoped that the auditors would have reviewed their use of the term “*significant deficiency*” in light of:

- The susceptibility of the underlying sample transaction to loss or fraud (none reported by the auditors);
- The subjectivity, complexity or extent of judgment required to determine the amount involved;
- The interaction or relationship of the control with other controls (including compensating controls).

## **INTERNEWS RESPONSES TO SPECIFIC FINDINGS**

### **1) Finding 2013-01 – Cash Management Procedures**

The cause of this issue was actually due to inadequate documentation. Internews is fully versed in the regulations concerning cash management. Given the capacity building nature of Internews’ work, sub-recipients often need to have funds in their bank accounts to avoid fees, establish operations, etc. What we don’t have is the internal documentation explaining why this particular sub needed the exact amount advanced.

*CFR226. .21*

*5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient. To the extent that the provisions of the Cash Management Improvement Act (CMIA) (Pub. L. 101–453) govern, payment methods of State agencies, instrumentalities, and fiscal agents shall be consistent with CMIA Treasury-State Agreements or the CMIA default procedures codified at 31 CFR part 205, “Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs.”*

As stated CFR226.21 above, Internews’ advance payments to the sub-recipient are in compliance with regulation. The funds were used for program purposes as part of the capacity development of the sub-recipients. This is especially the case for newer organizations that have limited other funding sources.

Nonetheless, Internews does not contest the request to remit the interest amount of \$2,717.

## **2) Finding 2013-02 – Reporting**

1. *The auditors identified three reporting issues as follows: One out of six (6) reports tested did not contain all the required reporting components. Specifically, the quarterly SF425 for June 2011 did not include Federal Cash receipts, disbursements, or cash on hand. In addition, the report did not have program income reported on the report.*

**Internews Response:** Internews accepts this finding. It should be noted that additional procedures have already been implemented to prevent future similar occurrences. Specifically we have enhanced or review and documentation processes to ensure that every SF425 has a documented review and approval. These changes were implemented prior to the audit commencing but after the end of the award period in scope. .

2. *Four (4) out of six (6) reports tested did not have a documented review and approval prior to submission. Specifically, two (2) quarterly financial reports, one (1) quarterly performance report, and the final grant close out report did not have a documented review*

**Internews Response:** Internews accepts this finding, additional procedures have already been implemented to prevent future similar occurrences. Specifically we have enhanced or review and documentation processes to ensure that every SF425 has a documented review and approval. These changes were implemented prior to the audit commencing but after the end of the award period in scope. .

3. *The Monitoring and Evaluation (M&E) plan was not submitted. Per the USAID contract agreement, “At the end of every 12 months of Program implementation, the Recipient shall provide USAID with an annual M&E report describing the results of the previous years’ work in terms of the Annual implementation plan and the agreed upon indicators.” We acknowledge that some criteria required under the M&E report was also included within quarterly performance reports, however, contract terms specifically discuss the submission of a separate annual M&E plan.*

**Internews Response:** Internews does not accept this finding. Internews submitted the M&E reports as a component of the performance reports. The award agreement does not explicitly state that Internews must submit the M&E plan as an independent document. It is Internews position that the auditor is focusing on form over substance with respect to this issue and the finding should therefore be removed.

## **3) Finding 2013-03 – Program Income**

Internews disagrees with the classification of this finding as a Material Weakness. Our initial Special Purpose Financial Statement (SPFS), prepared specifically for the audit engagement, omitted the costs covered by program income due to a misunderstanding regarding the scope of the audit. We incorrectly understood “costs incurred under USAID Cooperative agreement” referenced in the April 14, 2014 notice of planned audit to be only the federal expenditures, not the additive program income expenditures. It was not until on-site testing was almost completed that this misunderstanding came to light, at which point we revised the SPFS. While we acknowledge there was an omission of program income from the report, the omission was not due to a control deficiency – the report accurately reflected the numbers we believed in scope. Once we became aware of the miscommunication, the new report was prepared, subject to the same controls.

It should be noted that the SPFS was used *solely* for the purpose of this audit engagement and that Internews standard reporting and all SF425 reporting correctly reported the earned and expended program income. At no point did this omission increase the risk of fraud, impact management decision making or indicate that there was an increased risk of other undetected material statement. Additionally, given that the only user of the SPFS was the auditors and all other financial reports included this data, there are no end users that would have drawn inaccurate conclusions from this report. As such, we assert the classification of this finding as a Material Weakness is inappropriate. At most the severity level should be minor deficiency.

#### **4) Finding 2013-04 – Indirect General and Administration Costs**

Internews disagrees completely with this finding, the associated questioned costs of \$194,446, and the classification of Material Weakness.

We assert that Internews' application of the GA rate to the full amount of our standard subgrants is appropriate based on four separate points of analysis summarized below.

1. [The rates were applied consistent with our executed Negotiated Indirect Cost Rate Agreement](#) as accepted by the contracting officer, documented within the agreement letter at the time of issuing CA No. 306-A-00-10-00533-00
2. [Internews negotiates our indirect rate based on the "Simplified allocation method"](#), which does not pre-determine a set amount for omission but rather instructs organizations to exclude "distorting" costs.
3. [The rates were applied consistent with the methodology utilized in the proposal and agreement](#) budgets, said budgets detailed specific subgrants in excess of \$25,000. Acceptance of the budget in the proposal and at the time of award issue constitutes evidence the methodology was accepted specifically on Agreement No. 306-A-00-10-00533-00; this is further documented in section A.6 of the cooperative agreement.
4. [Even for organizations using the multiple allocation base methodology, A122 Section D paragraph 3.c](#) *Allocation bases* allows for alternative bases to be utilized if it can be demonstrated that a "different base would result in a more equitable allocation of the costs." The exclusions cited for finding #4 are not universally applicable.

#### **Response Detail:**

Internews has determined the capacity building nature of our mission warrants distinction between two types of subrecipients: "pass through" grants which have minimal involvement and oversight versus "standard" grants which includes capacity development of the subrecipient entity and substantial involvement in ensuring the subrecipient meets all programmatic and regulatory requirements. A pass-through subgrant is extremely rare and is only considered such when the entire award from the prime funder to Internews is for the sole purpose of issuing a single subaward to a single entity.

Additionally, Internews' major functions all benefit from our indirect costs to approximately the same degree. Accordingly, when negotiating our indirect cost rate, we utilized the simplified allocation method, including the full amount of our standard grants

**1) Rates were applied according to the Negotiated Indirect Cost Rate Agreement**

As indicated on our approved Negotiated Indirect Cost Rate Agreement (NICRA), the base of application for G&A is "Total costs, excluding G&A, contributions made to affiliates and *pass-through* subawards/subcontracts". Our annual renewal and approval of NICRA includes the submission of our full A133 audited financials, including a separate opinion on the audited indirect rate calculation. Said IRC reconciles to the Statement of Functional Expenses which includes the full amount of subaward expenditures, further detailed by Schedule 4: Schedule of Subaward expenditures for Federal Awards. The following figures from our A133 audited financials and audited Indirect Rate Calculations clearly demonstrate standard sub-awards are included in the base of GA. We assert that the contract officer's acceptance of our methodology provides a valid basis for application according to the agreement.

| Year | A133 Total Costs | GA        | Total Costs Less GA | GA Base in Audited IRC | Exclusions other than G&A | Subawards included in total costs |
|------|------------------|-----------|---------------------|------------------------|---------------------------|-----------------------------------|
| 2010 | 41,719,710       | 3,736,594 | 37,983,116          | 37,903,545             | 79,571                    | 9,689,442                         |
| 2011 | 55,756,995       | 5,052,382 | 50,704,613          | 50,629,747             | 74,866                    | 11,837,182                        |
| 2012 | 54,771,695       | 4,972,252 | 49,799,443          | 49,777,820             | 21,623                    | 11,660,630                        |
| 2013 | 55,349,035       | 5,351,443 | 49,997,592          | 49,952,951             | 44,641                    | 13,039,788                        |

**2) Simplified Allocation methodology does not prohibit inclusion of grants \$>25,000**

As previously mentioned, Internews negotiates the Indirect Rate using the simplified method of allocation as our major functions benefit from our indirect costs approximately to the same degree. Per *A122 Section D, paragraph 2.a*, according to the simplified allocation method:

The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or subgrants), direct salaries and wages, or other base which results in an equitable distribution.

The simplified method does not proscribe subgrants in excess of \$25,000 and only requires exclusion of *distorting* items. Internews does not consider our standard subgrants to be distorting items regarding our indirect rate because of the previously mentioned capacity building nature of our mission and the high degree of involvement in ensuring the subrecipient meets all programmatic and regulatory requirements. As such, the full amount of our standard subgrants was appropriately included in the

base during negotiation and the rates applied to Agreement No. 306-A-00-10-00533-00 were in accordance with the acceptable methodology.

### **3) Rates were applied according to agreement which itemized subgrants >\$25,000**

Agreement No. 306-A-00-10-00533-00 specifies:

*“The Internews Team will build on a long history of supporting the financial viability of media to enable these enterprises to access business advisors and financial management training, and enhance their relevance to their communities and constituents through solid market research and wise investment in essential hardware and software.”*

This clause is of the typical nature of Internews involvement with capacity building subgrants and exemplifies the activities undertaken as part of ensuring the recipient meets programmatic and regulatory requirements and demonstrates the subgrants included in this agreement are not pass-through grants.

Furthermore, the proposal and agreement budgets specifically identify several subgrants greater than \$25,000 with detailed budgets by recipient name, for example, NAI and ACFS were each identified with awards greater than \$3MM. The agreed upon budget follows the same methodology regarding treatment of capacity building subgrants and includes them in the expenses subject to G&A allocation; all subsequent modifications also used this methodology.

We assert that acceptance of this budget constitutes further evidence that our approved NICRA methodology was accepted for this agreement and we correctly applied our GA rate to standard subgrants according to the agreement.

### **4) A122 D.3.c allows for a different base if it results in a more equitable allocation.**

Finally, we note that the regulatory basis for finding #4 is based on the multiple allocation base method identified in *A122 Section D paragraph 3.f Distribution basis* however *A122 Section D paragraph 3.c Allocation bases* states:

*“Actual conditions shall be taken into account in selecting the base to be used in allocating the expenses in each grouping to benefitting functions. **The essential consideration in selecting a method or a base is that it is the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived;** a traceable cause and effect relationship; or logic and reason, where neither the cause nor the effect of the relationship is determinable. [...] The distribution shall be made in accordance with the bases described herein **unless it can be demonstrated that the use of a different base would result in a more equitable allocation of the costs.**” (Emphasis added)*

Accordingly we assert, even under the multiple allocation method, full inclusion of grants >\$25,000 is not automatically barred and sole reliance on this paragraph 3.f without consideration of paragraph 3.c prevents a comprehensive application of the appropriate regulations.

## APPENDIX B – Crowe’s Rebuttal

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

May 19, 2015

Crowe Horwath LLP, in consideration of the views presented by the management of Internews Network (Internews), presents the following rebuttal to the Management Response (Response) found in Appendix A of this report. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report.

### General Response

Internews disagreed with the classifications of the internal control deficiencies reported in the audit. Crowe’s classifications for the internal control deficiencies listed in this report were based on professional judgment and follow the requirements of Statement on Auditing Standards (SAS) No. 115 - Communication of Internal Control Related Matters Identified in an Audit. Crowe determined that Findings 2013-03 and 2013-04 were material weaknesses because the control deficiencies noted either resulted in a material misstatement to the Special Purpose Financial Statement or that there was a reasonable possibility that a material misstatement would not be prevented, or detected and corrected on a timely basis. Findings 2013-01 and 2013-02 were deemed to be significant deficiencies as they were control deficiencies in internal control less severe than a material weakness, yet important enough to merit attention of SIGAR.

### Finding 2013-01

Internews disagreed with the cause of the finding that they were unaware of the cash management requirements. However, the response does not address the main criteria supporting the finding. Specifically, the Code of Federal Regulations (CFR) 22 CFR part 226.22 states:

“Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, **immediate cash requirements** of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as **close as is administratively feasible to the actual disbursements** by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.”

CFR part 226.22 goes on to state that “Advance payment mechanisms are subject to 31 CFR part 205”.

31 CFR part 205.12 (4) states “Cash advance (pre-issuance or post-issuance) funding means that a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, **not more than three business days prior to the day the State issues checks or initiates EFT payments.**”

The response provided by Internews did not demonstrate Internews’ knowledge of the above referenced cash management rules and regulations related to advance payments. Therefore, the finding remains as originally stated.

### **Finding 2013-02**

Internews disagreed with the M&E plan submission portion of this finding. Cooperative agreement number 306-A-00-10-00533-00 explicitly states that the M&E report shall be submitted with the annual implementation plan and the M&E plan will be approved at the same time with a similar approval process as the annual implementation plan. The agreement also states that the Annual Implementation Plan shall be submitted within 3 weeks of the beginning of the Agreement. The Agreement was effective November 1, 2010. Therefore, the annual implementation plan and M&E report were due by November 22, 2010. Internews' response discusses that the M&E plan was submitted as a component of the performance reports. However, the performance reports reference were dated August 2012, June 2013 and September 2013 and were reports that provided on-going program results and not an initial plan for monitoring and evaluation of the program. Therefore, the response provided does not address the main basis of the finding that an M&E Plan was not submitted within 3 weeks of the beginning of the agreement.

### **Finding 2013-03**

Internews disagreed with the classification of the finding as a material weakness in internal control. The Special Purpose Financial Statement (Statement) provided by Internews had a material omission, as it did not include program revenues and expenses from program income. Internews provided the Statement that reflected AMDEP revenue and expenses materially different from financial reports issued directly to USAID for AMDEP. Internews agreed with the proposed audit adjustment and adjusted the SPFS accordingly. The classification of this finding will remain as a material weakness.

### **Finding 2013-04**

Internews disagreed with the finding. The Negotiated Indirect Cost Rate Agreement between USAID and Internews states that the base for the General and Administration (G&A) calculation is "Total costs, **excluding** G&A, contributions made to affiliates and pass-through subawards/subcontracts". Internews' response creates a definition for pass-through subawards and "standard" subawards. However, federal guidance including OMB Circular A-122 only has one definition for a subaward that encompasses all payments to subrecipients for subawards. Therefore, the definitions created by Internews are not relevant to the criteria or basis of this finding. The remainder of the response provides Internews' justification for why these costs should be included in the G&A calculation. However, without a revision to the NICRA, the justification provided not germane to the finding and the language will remain as stated.

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## Public Affairs

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