

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-89 Financial Audit**

USAID's Sub-national Governance  
Structures Program in Regional Commands  
East and South: Audit of Costs Incurred by  
the Consortium for Elections and Political  
Process Strengthening



SEPTEMBER  
2015

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On June 3, 2008, the U.S. Agency for International Development (USAID) signed an 18-month cooperative agreement for \$5.0 million with the Consortium for Elections and Political Process Strengthening (CEPPS) to support the Sub-national Governance Structures (SNG) program in Regional Commands East and South. The primary objective of the SNG program was to bridge the gap between governors and citizens by developing provincial governments' capacity to understand and address constituent needs. SNG's required activities included holding town hall meetings, distributing information about the governors' policies, and supporting oversight of provincial development projects and budgets. After 14 modifications, program funding increased to \$20.8 million, and the period of performance was extended through September 30, 2013.

SIGAR's financial audit, performed by Davis and Associates Certified Public Accountants, PLLC (Davis), reviewed \$18,832,886 in expenditures charged to the agreement from June 3, 2008, through September 30, 2013. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in CEPPS's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether CEPPS has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of CEPPS's Special Purpose Financial Statement. See Davis's report for the precise audit objectives.

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

September 2015

## USAID's Sub-national Governance Structures Program in Regional Commands East and South: Audit of Costs Incurred by the Consortium for Elections and Political Process Strengthening

SIGAR 15-89-FA

### WHAT THE AUDIT FOUND

Davis and Associates Certified Public Accountants, PLLC (Davis) identified two material weaknesses and three significant deficiencies in the Consortium for Elections and Political Process Strengthening's (CEPPS) internal controls, and three instances of material noncompliance with the terms and conditions of the cooperative agreement. Specifically, Davis found that CEPPS was unable to provide adequate support for a competitive procurement process for rental vehicle transactions. Davis also found several transactions in which CEPPS requested reimbursement for vehicles that were purchased in cash under employees' names, but the titles for those vehicles were never transferred to CEPPS. SIGAR is looking into this matter for a potential investigation. In addition, Davis found transactions that were not supported with a proof of payment or other sufficient documentation to prove the reasonableness of costs.

As a result of these internal control deficiencies and instances of noncompliance, Davis identified \$75,740 in total questioned costs, consisting of \$75,740 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Davis did not identify any ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel and Fringe	\$0	\$10,748	\$10,748
Other Direct Costs	\$0	\$64,992	\$64,992
<b>Totals</b>	<b>\$0</b>	<b>\$75,740</b>	<b>\$75,740</b>

Davis did not identify any prior audits, reviews, or evaluations that pertained to CEPPS's activities under the Sub-national Governance Structures program. CEPPS and the U.S. Agency for International Development also indicated that there were no prior audit reports issued on the program.

Davis issued an unmodified opinion on CEPPS's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the period audited.

### WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$75,740 in total questioned costs identified in the report.**
- Advise CEPPS to address the report's five internal control findings.**
- Advise CEPPS to address the report's three noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

September 29, 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 Davis and Associates Certified Public Accountants, PLLC (Davis) to audit the costs incurred by the Consortium for Elections and Political Process Strengthening (CEPPS) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Sub-national Governance Structures program in Regional Commands East and South.<sup>1</sup> Davis's audit covered \$18,832,886 in expenditures charged to the agreement from June 3, 2008, through September 30, 2013. Our contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. **Determine the allowability of and recover, as appropriate, \$75,740 in total questioned costs identified in the report.**
2. **Advise CEPPS to address the report's five internal control findings.**
3. **Advise CEPPS to address the report's three noncompliance findings.**

The results of Davis's audit are detailed in the attached report. We reviewed Davis'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 CEPPS's Special Purpose Financial Statement. We also express no opinion on the effectiveness of CEPPS's internal control or compliance with agreement, laws, and regulations. Davis is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Davis did not comply, in all material respects, with U.S. 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-053)

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<sup>1</sup> USAID awarded cooperative agreement number 306-A-00-08-00513-00 to CEPPS to support the Sub-national Governance Structures program, which was intended to bridge the gap between governors and citizens by developing provincial governments' capacity to understand and address constituent needs.

# DAVIS AND ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS, PLLC

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FINANCIAL AUDIT

OF

COSTS INCURRED BY THE CONSORTIUM FOR ELECTIONS AND POLITICAL PROCESS  
STRENGTHENING (CEPPS) UNDER THE COOPERATIVE AGREEMENT 306-A-00-08-00513-00  
TO SUPPORT SUB –NATIONAL GOVERNANCE STRUCTURES IN RC-EAST AND RC-SOUTH  
PERIOD JUNE 3, 2008 TO SEPTEMBER 30, 2013

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September 11, 2015

**TRANSMITTAL LETTER**

To: To the President, Consortium for Elections and Political Process Strengthening (CEPPS)  
1225 Eye Street, NW, Suite 700  
Washington, DC 20005

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

From: Davis and Associates Certified Public Accountants, PLLC

Subject: Financial Audit of Costs Incurred by the Consortium for Elections and Political Process  
Strengthening (CEPPS) under the Cooperative Agreement 306-A-00-08-00513-00 to support  
Sub-national Governance Structures in RC-East and RC-South program in Afghanistan, for the  
period June 3, 2008 to September 30, 2013

This letter transmits the final audit report of the subject effort. We issued an unmodified opinion on the fairness of the presentation of the Special Purpose Financial Statement. Our audit disclosed \$75,740 of total unsupported costs that were required to be questioned in the Special Purpose Financial Statement. Our audit detected three instances of material non-compliance and five significant deficiencies in internal controls; we consider two of these to be material weaknesses.

*Davis & Associates*

Davis and Associates Certified Public Accountants, PLLC

211 North Union Street

Suite 100

Alexandria, Virginia 22314

## EXECUTIVE SUMMARY

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### **Background**

On June 3, 2008, the U.S. Agency for International Development (USAID) signed a \$5 million associate cooperative agreement number 306-A-00-08-00513-00 under a leader/associate type award with Consortium for Elections and Political Process Strengthening (CEPPS) to support the Sub-national Governance Structures (SNG) program in Regional Command RC-East and RC-South in Afghanistan. SNG program was undertaken to bring focus on bridging the gap between citizens and governors by developing the ability of the provincial governments to better understand and address the needs of their constituents. The program objectives were: 1) develop the capacity of Governor's office to understand and respond to constituent needs, 2) develop the capacity of Governor's office to communicate their policies to their constituents, 3) strengthen the capacity of provincial councils to conduct more effective development planning, and 4) support provincial councils as they conduct oversight over provincial development projects and budgets. After 14 modifications, the total cost of the agreement was increased to \$20.8 million, and the period of performance was extended to September 30, 2013.

Our audit covers the period of performance from June 3, 2008 to September 30, 2013, where CEPPS incurred costs totaling \$18,832,886.

CEPPS is a legal joint venture of two separate organizations, the International Republican Institute (IRI) and the National Democratic Institute (NDI). IRI and NDI are both private non-profit organizations. While CEPPS is the prime recipient of the cooperative agreements, it issues sub-awards to each member of the joint venture who each maintains its own financial, personnel and human resources policies and are individually responsible for implementing their respective components of the program.

### **Work Performed**

Davis and Associates Certified Public Accountants, PLLC was engaged by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the CEPPS program.

### **Methodology - Procedures Performed**

Below are the documents that were used for the performance of this audit:

- The Cooperative Agreement 306-A-00-08-00513-00 between the USAID and CEPPS.
- Contracts and subcontracts with third parties.
- The written procedures approved by USAID/Afghanistan.

- USAID Office of Inspector General, *Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)* dated February 2009.
- ADS Chapter 591 - *Financial Audits of USAID Contractors, Recipients, and Host Government Entities*.
- Mandatory Standard Provisions for U.S. Nongovernmental Grantees (USAID Automated Directives System, Chapter 303 Internal Mandatory References).
- All policies and procedures.

Our audit approach was significance and risk-based. Significance is the relative importance of a matter within the context it is being considered, including qualitative and quantitative factors.

#### *Special Purpose Financial Statement*

We examined CEPPS' Special Purpose Financial Statements by budgeted line item under the agreement, including the budgeted amounts by category and major items. We reviewed OMB Circular A-122 to ensure that all costs incurred in Afghanistan and the U.S. under the USAID-funded agreement were allocable, reasonable, properly supported, allowable and properly included by CEPPS in the Special Purpose Financial Statements by category and major item.

#### *Internal Controls*

Through inspection of documents, inquiry of personnel and observation of procedures, we obtained a sufficient understanding of CEPPS and its environment, including its internal control, to assess the risk of material misstatement of the books and records of CEPPS, whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

#### *Compliance with Laws and Regulations*

We identified the significant provisions of laws and regulations to design relevant compliance-related procedures for the audit. We looked at those provisions (a) for which compliance could be objectively determined and (b) that had a direct and material effect on the Activity. Our audit included steps to allow us to detect all material instances of noncompliance, defined as instances that could have a direct and material effect on the Special Purpose Financial Statements.

#### *Follow Up to Prior Audit Recommendations*

We inquired of management as to whether or not any prior audit or compliance reviews had been performed with respect to the project under audit.

## **Objectives Defined by SIGAR**

The following audit objectives were defined within the Performance Work Statement for Financial Audits of Costs Incurred by CEPPS funded by the U.S. Government for Reconstruction Activities in Afghanistan:

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

Express an opinion on whether CEPPS’ Special Purpose Financial Statement for the award 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 award and generally accepted accounting principles or other comprehensive basis of accounting.

### *Audit Objective 2 - Internal Controls*

Evaluate and obtain a sufficient understanding of CEPPS’ 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 CEPPS’ 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 CEPPS 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**

In the performance of the audit, we applied audit procedures to IRI and NDI. In our discussion, when describing audit procedures utilized, we refer to CEPPS as they are the Auditee. However, these procedures were applied to both entities.

We conducted our audit from April 21, 2015 through July 9, 2015, for the SNG project implemented by CEPPS. The period covered under this audit was from June 3, 2008 to September 30, 2013. The total amount of unburdened direct costs for the period under audit was \$18,832,886; we selected \$10,058,897 of that population for substantive testing. Our testing of indirect costs was limited to applying the rates to verify the indirect costs using the negotiated indirect cost rate agreements (“NICRA”) or provisional rate, as applicable for the given fiscal year, as approved by USAID/Afghanistan.

## Summary of Audit Results

### *Special Purpose Financial Statements*

We issued an unmodified opinion on the fairness of the presentation of the Special Purpose Financial Statement. [See *Independent Auditor’s Report on the Special Purpose Financial Statements*, Page 16]

CEPPS did not properly exclude some unallowable costs. Our audit disclosed \$75,740 of costs that were required to be questioned in the Special Purpose Financial Statement. [See *Detailed Audit Findings*, Page 23]

**Table 1 - Summary of Findings and Questioned Costs**

<b>Finding Number</b>	<b>Nature of Findings</b>	<b>Matter</b>	<b>Questioned Costs Description</b>	<b>Total Amount Questioned</b>
<b>NDI 1</b>	Material Weakness in Internal Control	<b>Travel Stipends for Council Members</b>	None	<b>\$0</b>
<b>NDI 2</b>	Material Non-Compliance	<b>Lack of Competitive Procurement Process</b>	Unsupported	<b>\$33,238</b>
<b>NDI 3</b>	Significant Deficiency in Internal Control	<b>Lack of Adequate Documentation</b>	Unsupported	<b>\$10,748</b>
<b>IRI 1</b>	Significant Deficiency in Internal Control	<b>Purchase of Used Vehicle</b>	None	<b>\$0</b>
<b>IRR 2</b>	Material Weakness in Internal Control	<b>Salary Withholding Taxes</b>	None	<b>\$0</b>
<b>IRI 3</b>	Material Non-Compliance	<b>Lack of Compliance with Provision of Local Tax Law</b>	None	<b>\$0</b>
<b>IRI 4</b>	Significant Deficiency in Internal Control	<b>Lack of Sufficient Documentation</b>	Unsupported	<b>\$26,014</b>
<b>IRI 5</b>	Material Non-Compliance	<b>Lack of Competitive Procurement Process</b>	Unsupported	<b>\$5,740</b>
			Total Questioned Costs	<b>\$75,740</b>

### *Internal Controls*

Our audit detected five significant deficiencies in Internal Control; we consider two of these to be material weaknesses. [See *Independent Auditor’s Report on Internal Control*, Page 18]

### *Compliance with Laws and Regulations*

Our audit detected three instances of material non-compliance that are required to be reported. [See *Independent Auditor’s Report on Compliance*, Page 20]

*Prior Audit Report Findings*

Davis and Associates also requested copies of prior audits, reviews and evaluations pertinent to CEPPS' activities under the SNG program. Per communication with CEPPS and USAID, there were no prior audit reports issued for the subject effort. [See *Status of Prior Audit Findings*, Page 22]

The management comments are included in [Appendix A](#); our responses to these comments are included in [Appendix B](#).

**Exhibit I**  
**The Consortium for Elections and Political Process Strengthening**  
**Consolidated Special Purpose Financial Statement**  
**June 3, 2008 to September 30, 2013**

	<b>Total Agreement Budget</b>	<b>Actual for the Period</b>	<b>Questioned Costs</b>		<b>Notes</b>
			<b>Unsupported Costs</b>	<b>Ineligible Costs</b>	
Revenue	\$ 20,880,240	\$ 18,832,886	\$ -	\$ -	3
Total Revenue	<u>\$ 20,880,240</u>	<u>\$ 18,832,886</u>	<u>\$ -</u>	<u>\$ -</u>	
<b>Costs Incurred</b>					
Personnel and Fringe	\$ 2,257,599	\$ 2,051,190	\$ 10,748	\$ -	3,B
Travel	\$ 2,237,700	\$ 3,298,722	\$ -	\$ -	3
Equipment and Supplies	\$ 1,176,639	\$ 557,066	\$ -	\$ -	3
Contractual	\$ 6,703,443	\$ 6,824,714	\$ -	\$ -	3
Other Direct Costs	\$ 4,561,319	\$ 2,903,936	\$ 64,992	\$ -	3,A,C, D
Indirect Costs	<u>\$ 3,943,540</u>	<u>\$ 3,197,258</u>	<u>\$ -</u>	<u>\$ -</u>	3
Total Program Amount	<u>\$ 20,880,240</u>	<u>\$ 18,832,886</u>	<u>\$ 75,740</u>	<u>\$ -</u>	
Outstanding Fund Balance	<u>\$ -</u>	<u>\$ -</u>			4

*(The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement prepared by CEPPS entities)*

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

### **Note 1 - Status and Operation**

#### NDI

The National Democratic Institute for International Affairs (NDI) is a nonprofit, nonpartisan, nongovernmental organization that has supported democratic institutions and practices in every region of the world for more than three decades. Since its founding in 1983, NDI and its local partners have worked to establish and strengthen political and civic organizations, safeguard elections, and promote citizen participation, openness and accountability in government. NDI's headquarters is located in Washington, D. C.

#### IRI

The International Republican Institute (IRI) was formed in April 1983 in the District of Columbia as a nonprofit corporation. IRI headquarters is in District of Columbia located at 1225 Eye Street, NW. IRI is governed by its Board of Directors and is completely independent of the U.S. government. IRI advances freedom and democracy worldwide by developing political parties, civic institutions, open elections, good governance and the rule of law.

### **Note 2 - Summary of Significant Accounting Policies**

#### *Basis of Presentation*

#### NDI

The accompanying Special Purpose Financial Statement includes costs incurred by NDI under Cooperative Agreement 306-A-00-08-00513 to support Increased Electoral Participation in Afghanistan Program implemented by Consortium for Elections and Political Process Strengthening for the period June 3, 2008 through September 30, 2013, inclusive of pre-award costs beginning May 5, 2008. Because the Statement presents only a selected portion of the operations of NDI it is not intended to and does not present the Balance Sheet, Statement of Net Income, or Cash Flows of NDI. The information in this Special Purpose Financial Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and is specific to Cooperative Agreement 306-A-00-08-00513.

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<sup>1</sup> Prepared by CEPPS Management

Therefore, some amounts presented in this Special Purpose Financial Statement may differ from amounts presented in, or used in the preparation of, NDI's Balance Sheet, Statement of Net Income, or Cash Flows.

## IRI

The International Republican Institute (IRI) was formed in April 1983 in the District of Columbia as a nonprofit corporation. IRI headquarters is in District of Columbia located at 1225 Eye Street, NW. IRI is governed by its Board of Directors and is completely independent of the U.S. government. IRI advances freedom and democracy worldwide by developing political parties, civic institutions, open elections, good governance, and the rule of law.

### *Basis of Accounting*

## NDI

The Special Purpose Financial Statement has been prepared on the accrual basis of accounting whereby expenses are recognized when incurred.

## IRI

The accompanying financial statements are presented in accordance with the accrual basis of accounting whereby revenue is recognized when earned, and expense are recognized when incurred.

### *Foreign Currency Conversion Method*

## NDI

The operational currencies in Afghanistan are the Afghani and U.S. Dollar. Presentation currency is the U.S. Dollar. Currency translations have been done on the following basis.

- U.S. Dollar Expenditures – recorded in U.S. Dollars.
  - Afghani Expenditures – converted to U.S. Dollars using the monthly weighted average exchange rate of actual currency conversions during each period. The monthly weighted average exchange rates for the period under audit ranged from 44.98 Afghani to 56.56 Afghani per one U.S. Dollar.

IRI Note: IRI did have local expenditures under the award. The majority of the local expenditures were paid with US Dollars, however, there were some expenditures paid in Afghani currency.

### **Note 3 – Major Cost Categories**

Below are the major categories of costs expended under the cooperative agreement that are included within the budget lines on the Special Purpose Financial Statement.

#### *Personnel and Benefits*

##### NDI

Personnel includes salary costs charged as direct costs for U.S. Nationals (USNs) and Third Country Nationals (TCNs) for hours attributed directly to the Agreement. The proportional amount of fringe benefits based on actual salaries charged is also included in this category.

##### IRI

IRI maintains an electronic timesheet system in order to ensure compliance with the OMB 122 requirements and to enable IRI to accurately compensate and charge staff time. IRI charges personnel costs based on the actual time devoted to the program (level of effort) as evidenced by time sheets certified by employees and approved by his/her supervisor.

IRI's provisional fringe benefit rate is negotiated with IRI's cognizant federal agency, the U.S. Agency for International Development. The actual audited fringe benefit rate for FY13 47.17% of total salaries for U.S. staff.

#### *Travel*

##### NDI

The Travel category includes all costs of travel to, from, and within Afghanistan for airfare, local transportation, meals and incidentals, lodging, and other related travel costs incurred directly for the Agreement purposes.

##### IRI

International airfare, per diem and incidental expenses such as the cost of visas, immunizations, shipping, surplus baggage, etc. for trips to and from Afghanistan for employees, international trainers and consultants were incurred. Costs also included ground transportation and in-country airfare for local staff, participants and those traveling throughout Afghanistan to conduct and monitor program activities and subcontractors.

### *Equipment and Supplies*

NDI

Equipment and Supplies includes office supplies, computing devices, equipment rental, repairs and maintenance, as well as equipment that was necessary for sustainable operations in Afghanistan.

IRI

Office supplies, such as paper, folders and file organizers were purchased for the program, and includes photocopying costs in Washington. The cost may also cover computers and accessories such as a monitor and docking station, keyboard, mouse, and Skype headphones.

### *Contractual*

NDI

The Contractual category includes all costs associated with national staff salaries and benefits, as well as contracts for services such as security, printing, and translation. This cost category also includes consultant fees for international experts.

IRI

Contractual services include audit, legal and security services necessary for the successful completion of the program. IRI also hired local Afghan nationals to fulfill duties in the field office under the supervision of the Resident Country Director and other expats based in Afghanistan. The cost of local staff also included pension provision, severance, medical allowance and education allowance. Other contractual obligations under this award included contracts local and international organizations to fulfill requirements for focus groups, media work and election and civic education activities per the scope of the program.

### *Other Direct Costs*

NDI

Other Direct Costs include allowances and housing for international staff, rent and utilities for field offices, telecommunications, workshop/conference expenses, as well as other direct costs necessary for the implementation of the Agreement.

## IRI

Costs incurred include telephone and internet capabilities for both Washington and Kabul-based staff, as well as costs associated with postage and delivery of materials to and from the Kabul office. Training costs, space and utilities costs for housing of expatriates and office space for IRI's Afghanistan operations and insurances required for the safety of IRI expat and local staff were also incurred for this project.

### *Indirect Costs*

## NDI

Indirect Costs include general and administrative indirect costs allocated in accordance with the Negotiated Indirect Cost Rate Agreements (NICRA) for NDI and CEPPS. Final approved rates will not be established until after this report date. Management believes that any adjustment between the allocation rates utilized and the final approved rates will not result in a significant modification to expenditures.

## IRI

Indirect costs for each project are calculated based on a fixed percentage rate negotiated with IRI's cognizant federal agency, the U.S. Agency for International Development (22.28% for FY13) which is applied to modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, contracted services, occupancy, travel, and subgrants and subcontracts up to the first \$25,000 (regardless of the period covered by the subgrant or subcontract). Equipment of more than \$5,000 per unit, donated services, in-kind contributions, and that portion of each subgrant and subcontract in excess of \$25,000 will be excluded from the base.

**CEPPS Indirect Costs** – Effective with the NICRA dated October 1, 2009, CEPPS' current provisional indirect cost rate is 0.51% of total direct costs applied to all CEPPS Associate Awards. Total direct costs are defined as total costs incurred by the CEPPS Partners, including each partner's indirect costs based on each partner's approved indirect cost rates. The CEPPS NICRA rate is negotiated with CEPPS' cognizant federal audit agency, the United States Agency for International Development (USAID).

### **Note 4 – Reconciliation**

The fund balance represents the difference between costs incurred, including applicable indirect cost burdens and cooperative agreement funding.

Revenue – period under audit	\$	<u>18,832,886</u>
Costs – period under audit	\$	<u>18,832,886</u>
Variance	\$	<u>-</u>
Total Agreement Funding	\$	20,880,240
Billed through September 30, 2013	\$	<u>18,832,886</u>
Remaining Unbilled Cost	\$	<u>-</u>
Funds Available	\$	<u>2,047,354</u>

**Note 5 – Subsequent Events**

Management has performed their analysis through July 15, 2015, the date which the financial statements were available to be issued.

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

Unsupported costs – costs not supported with adequate documentation or that did not have required prior approval. Ineligible costs – costs prohibited by the cooperative agreement, applicable laws, or regulations.

### **Note A – Material Non-Compliance - Lack of Competitive Procurement Process**

Finding NDI 2 identified \$33,238 in unsupported questioned costs related to the procurement process. The failure to comply with Code of Federal Regulation requirements and its own policies pertaining to opening goods and services to open and free competition is the result of a lack of knowledge by project staff of the applicable policies. [Please refer to *Detailed Finding NDI 2*, Page 25]

### **Note B – Significant Deficiency Internal Controls - Lack of Adequate Documentation**

Finding NDI 3 identified \$10,748 in unsupported questioned costs. NDI did not maintain adequate supporting documentation for costs billed to the program. [Please refer to *Detailed Finding NDI 3*, Page 27]

### **Note C – Significant Deficiency Internal Control - Lack of Sufficient Documentation**

Finding IRI 4 identified \$26,014 in unsupported questioned costs. IRI did not maintain adequate supporting documentation, such as proof of payment or detailed description of rental vehicles agreement. [Please refer to *Detailed Finding IRI 4*, Page 35]

### **Note D – Material Non-Compliance - Lack of Competitive Procurement Process**

Finding IRI 5 identified \$5,740 in unsupported questioned costs related to the procurement process. The failure to comply with Code of Federal Regulation requirements and its own policies pertaining to opening goods and services to open and free competition is the result of a lack of knowledge by project staff of the applicable policies. [Please refer to *Detailed Finding IRI 5*, Page 38]

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<sup>2</sup> Prepared by Auditor

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

To the President, Consortium for Elections and Political Process Strengthening  
1225 Eye Street, NW, Suite 700  
Washington, DC 20005

### Report on the Financial Statements

We have audited, the Special Purpose Financial Statement of the Consortium for Elections and Political Process Strengthening ("CEPPS") to support Sub-national Governance Structures in RC—East and RC- South in Afghanistan under Associate Cooperative Agreement 306-A-00-08-00513-00 for the period June 3, 2008 to September 30, 2013, hereinafter referred to as the financial statements.

### 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 Special Inspector General for Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the preparation of the Statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the Special Purpose Financial Statement in accordance with U.S. 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 Special Purpose Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Special Purpose Financial Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed by the U.S. Agency for International Development for the period June 3, 2008 to September 30, 2013 in accordance with the terms of the agreement or in conformity with the basis of accounting described in Notes to the Special Purpose Financial Statement, Page 9.

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

In accordance with U.S. Government Auditing Standards, we have also issued our reports, dated July 9, 2015, on our consideration of CEPPS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and the terms and conditions of the cooperative agreement. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

## **Restriction on Use**

This report is intended for the information of CEPPS, the U.S. Agency for International Development 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. 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.

*Davis & Associates*

Alexandria, Virginia

July 9, 2015

## Independent Auditor's Report on Internal Control

To the President, Consortium for Elections and Political Process Strengthening  
1225 Eye Street, NW, Suite 700  
Washington, DC 20005

We have audited, the Special Purpose Financial Statement of the Consortium for Elections and Political Process Strengthening ("CEPPS") and related notes to the Statement, to support Sub-national Governance Structures in RC–East and RC- South in Afghanistan under Associate Cooperative Agreement 306-A-00-08-00513 for the period June 3, 2008 to September 30, 2013, hereinafter referred to as the financial statements, and have issued our report, dated July 9, 2015.

### Management Responsibility

Management is responsible for establishing and maintaining internal control. 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 financial statements in conformity with the basis of accounting described in Note 1.

### Auditor Responsibility

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and U.S. *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 financial statements, 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. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected and 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.

### Internal Control over Financial Reporting

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the following deficiencies in the entity's internal control to be material weaknesses:

- NDI did not have adequate procedures in place to fully document the results of the cost survey when determining amounts for travel stipends for provincial council members. [Please refer to detailed Finding NDI 1 on page 23]
- IRI did not properly establish control over documenting, recording and reporting of payroll taxes despite being aware of the local tax law requirements. [Please refer to detailed Finding IRI 2 on page 31]

We consider the following deficiencies in the entity's internal control to be significant deficiencies:

- NDI did not maintain adequate supporting documentation for costs billed to the project. [Please refer to detailed finding NDI 3 on page 27]
- IRI did not have adequate procedures in place to ensure vehicles purchased under the contract were properly titled to IRI. [Please refer to detailed finding IRI 1 on page 29]
- IRI did not maintain adequate supporting documentation, such as proof of payment or detailed description of vehicles in rental agreements, for costs billed to the project. [Please refer to detailed finding IRI 4 on page 35]

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control, 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 CEPPS, the U.S. Agency for International Development 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. 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.

*Davis & Associates*

Alexandria, Virginia  
July 9, 2015

## Independent Auditor's Report on Compliance

To the President, Consortium for Elections and Political Process Strengthening  
1225 Eye Street, NW, Suite 700  
Washington, DC 20005

We have audited, the Special Purpose Financial Statement of the Consortium for Elections and Political Process Strengthening ("CEPPS") and related notes to the Statement, to support Sub-national Governance Structures in RC-East and RC-South in Afghanistan under Associate Cooperative Agreement 306-A-00-08-00513 for the period June 3, 2008 to September 30, 2013, hereinafter the financial statements, and have issued our report dated, July 9, 2015

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its USAID-funded program.

### Auditor's Responsibility

We conducted our audit in accordance with U.S. *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 Schedule of Costs Incurred in Afghanistan and the U.S. 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 Schedule of Costs Incurred in Afghanistan and the U.S. amounts.

### Compliance and Other Matters

Compliance with agreement terms and laws and regulations applicable to CEPPS is the responsibility of CEPPS' management. As part of obtaining reasonable assurance about whether the Schedule of Costs Incurred is free of material misstatement, we performed tests of CEPPS' 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 Special Purpose Financial Statement.

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing. The results of our tests disclosed three

instances of noncompliance that are required to be reported here under Government Auditing Standards and which are described in Findings NDI 2, IRI 3 and IRI 5 on pages 25, 33 and 38, respectively.

CEPPS' responses to the findings identified in our report are attached as Appendix A to this report. We did not audit these responses and, accordingly, we express no opinion on them.

#### **Restriction on Use**

This report is intended for the information of CEPPS, the U.S. Agency for International Development 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. 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.

*Davis & Associates*

Alexandria, Virginia

July 9, 2015

## STATUS OF PRIOR AUDIT FINDINGS

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We also requested copies of prior audits, reviews and evaluations related to CEPPS activities under SNG program. Per communication with CEPPS and USAID, there was no prior audit report issued for the subject effort.

## DETAILED AUDIT FINDINGS

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**Finding Number:** NDI 1 - Travel Stipends for Provincial Council Members

**Nature of Finding:** Material Weakness in Internal Control

### Condition

Upon review of travel stipends for Provincial Council (PC) members for various seminars throughout the period of performance for the SNG project, the Auditors noticed there was no basis with which to test the reasonableness of the amount of the stipends. With each sample and set of supporting documentation, there was a memo included that said, “The operation and finance team conducted a cost survey of each region of Afghanistan to determine a fair estimate of travel related expenses.” The Auditors made several requests of management to provide some sort of documentation from the operation and finance team that conducted this survey to confirm whether or not this survey actually took place, and to ensure that the allowance determinations were properly supported and adhered to. The auditors determined that there is no documentation for the survey available, and that personnel in each region only used their local knowledge and judgment to establish the rate for each region.

### Criteria

OMB Circular A-122, “Cost Principles for Non-Profit Organizations” states that in order be allowable a cost must have the following attributes:

- *Be reasonable for the performance of the award and be allocable thereto under these principles.*
- *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- *Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- *Be accorded consistent treatment.*
- *Be determined in accordance with generally accepted accounting principles (GAAP).*
- *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- *Be adequately documented*

### Questioned Costs

None

### Cause

NDI did not have adequate procedures in place to fully document the results of the cost survey when determining amounts for travel stipends.

Effect

Failure to fully document the process of determining the amounts for travel stipends for provincial council members may have resulted in paying unnecessarily high amounts to council members.

Recommendation

We recommend that NDI ensure that its field offices fully document the cost surveys performed when determining amounts for travel stipends.

**Finding Number: NDI 2 – Lack of Competitive Procurement Process**

**Nature of Finding: Material Non-Compliance**

Condition

During the audit procedures, auditors determined that NDI did not use open and free competition to justify some large transactions. NDI was not able to provide adequate supporting documentation or sole source justification for the following transactions.

Audit Sample #	GL Acct	Date	Expense Report	Questioned Cost Amount	Auditor Notes
63	5400-020	2012-02-27	33803	\$22,144	No competitive bid process provided for rental vehicles. Questioned amount expanded to cover the entire rental agreement.
115	5400-020	2012-11-22	36028	\$11,094	No competitive bid process provided for rental vehicles.
	<b>Total</b>			<b>\$33,238</b>	

Criteria

**Title 22, Part 226 of the Code of Federal Regulations**

**§226.43 – Competition**

*“All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.”*

**§ 226.45 Cost and price analysis.**

*“Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.”*

**§ 226.46 Procurement records.**

*“Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) Basis for contractor selection, (b) Justification for lack of competition when competitive bids or offers are not obtained, and (c) Basis for award cost or price.”*

OMB Circular A-122, “Cost Principles for Non-Profit Organizations” states that in order be allowable a cost must have the following attributes:

- *Be reasonable for the performance of the award and be allocable thereto under these principles.*
- *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- *Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- *Be accorded consistent treatment.*
- *Be determined in accordance with generally accepted accounting principles (GAAP).*
- *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- *Be adequately documented*

### Questioned Costs

\$33,238 in direct costs plus associated indirect costs

### Cause

NDI failed to comply with Code of Federal Regulation requirements and its own policies pertaining to procure goods and services through open and free competition. NDI staff did not have adequate knowledge of the required procurement process and applicable policies.

### Effect

Failure to use open and competitive procurements over a certain threshold may have resulted in the Government not receiving the most competitive price for certain goods and services.

### Recommendation

We recommend that NDI provide training to its personnel and update its procedures for conducting open and free competition, in accordance with federal regulations. We recommend that procedures should address sole source justification and require prior approval from the funding agency. We also recommend that NDI reimburse \$33,238 in unsupported questioned costs to USAID.

**Finding Number: NDI 3 – Lack of Adequate Documentation**

**Nature of Finding: Significant Deficiency Internal Controls**

Condition

Upon review of supporting documentation provided by NDI, the auditors found one instance where costs were not supported by adequate documentation. Vehicle drivers were paid without submitting timesheets.

Questioned Costs			
Selection #	Unsupported	Ineligible	Explanation
125	\$ 10,748.00	\$ -	No timesheets submitted for Vehicle Drivers. Contract stipulates timesheets MUST be submitted prior to payment for services.
<b>Total:</b>	\$ 10,748.00		

Criteria

OMB Circular A-122, “Cost Principles for Non-Profit Organizations” states that in order be allowable a cost must have the following attributes:

- *Be reasonable for the performance of the award and be allocable thereto under these principles.*
- *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- *Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- *Be accorded consistent treatment.*
- *Be determined in accordance with generally accepted accounting principles (GAAP).*
- *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- *Be adequately documented*

Questioned Costs

\$10,748 in direct costs plus associated indirect costs

Cause

NDI did not maintain adequate supporting documentation for costs billed to the project.

Effect

USAID paid \$10,748 in costs that were not supported by proper documentation.

## Recommendation

We recommend that NDI maintain proper supporting documentation for all costs submitted for reimbursement by USAID. We also recommend that NDI reimburse \$10,748 in unsupported questioned costs to USAID.

**Finding Number: IRI 1 – Purchase of Used Vehicles**  
**Nature of Finding: Significant Deficiency in Internal Control**

Condition

Upon review of purchases of used vehicles in FY 2009, the auditor discovered several instances where vehicles were purchased by individual employees, but there was no proof that the title was ever transferred over to IRI. The employees paid cash for the vehicles, and obtained the titles. Therefore, the vehicles were registered under employees’ names, and IRI did not have legal ownership claim. As result, there is no proof of payment disbursement by IRI to the vehicle sellers. However, these amounts were submitted to USAID for reimbursement. Furthermore, quotes were obtained from three different dealers, but the vehicles were purchased from a fourth dealer, from which a quote was not obtained.

Audit Sample #	Account ID	Voucher Number	Amount	Questioned Cost Amount	Auditor Notes
22	5735	49072	\$ 34,160	-	Dealer’s agreement is provided, but IRI is not a party in that agreement. No proof provided that IRI disbursed payment to the vehicle seller. 3 quotes provided, but vehicles purchased from a 4 <sup>th</sup> dealer. Details of vehicles purchased not consistent with selection memo (i.e., color).
24	5735	49072	\$ 11,021	-	Dealer’s agreement is provided, but IRI is not a party in that agreement. No proof provided that IRI disbursed payment to the vehicle seller. 3 quotes provided, but vehicles purchased from a 4 <sup>th</sup> dealer. Details of vehicles purchased not consistent with selection memo (i.e., color).
	<b>Total</b>		<b>\$45,181</b>	<b>-</b>	

Criteria

IRI Field Office Accounting Policies and Procedures, III Allowable Costs: *“As a general rule, in order to be allowable all costs must be reasonable, necessary for the project implementation, and adequately documented.”*

OMB Circular A-122, “Cost Principles for Non-Profit Organizations” states that in order be allowable a cost must have the following attributes:

- *Be reasonable for the performance of the award and be allocable thereto under these principles.*
- *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- *Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- *Be accorded consistent treatment.*
- *Be determined in accordance with generally accepted accounting principles (GAAP).*

- *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- *Be adequately documented.*

### Questioned Costs

None

### Cause

IRI did not have adequate procedures in place to ensure the purchase of used vehicles were properly recorded under its name and obtained the titles. Additionally, since the transactions were paid in cash by employees, IRI did not have the titles in its possession and legal ownership.

### Effect

USAID paid \$45,181 in costs for vehicles that were not properly titled to the recipient organization. IRI did not have a legal claim to the vehicles, which could have caused potential challenges for claims of ownership.

### Recommendation

We recommend that in the future, IRI should ensure that vehicle purchases are registered to IRI to justify the cost as supporting the government programs. We also recommend that IRI maintain proper proof of payment for all costs submitted to USAID for reimbursement.

**Finding Number: IRI 2 – Salary Withholding Taxes**  
**Nature of Finding: Material Weakness in Internal Control**

Condition

In reviewing IRI's processes for recording salary withholding taxes; we found that the auditee did not record the salary withholding tax for its local national employees in its main financial records such as the payroll sheets and in the accounting software. Instead, the salary withholding tax payments were tracked on a separate spreadsheet by an individual local employee of IRI (Office Manager) who then calculated the withholding taxes amount for each employee and deposited those amounts with the Afghan Ministry of Finance, Revenue Department. The Office Manager obtained a stamped bank deposit form from the Revenue Department as proof of payment of the taxes.

The bank deposit forms that we reviewed were often inconsistent with the calculation in the excel spreadsheet. Employees signed a payment receipt form that indicated that they were paid the gross amount of their salaries, despite the withholding tax form reporting what was withheld.

Criteria

*IRI Field Accounting Policy and Procedures, V. QUICKEN PROCEDURES:*

*Quicken is the accounting system used by IRI field offices for the purpose of financial record keeping and reporting.... Field accountants will enter all transactions in Quicken and submit Quicken files to HQs accounting not later than three business days after the end of the reporting month.*

*Article 58 of the Afghan Tax Law states that "All natural or legal profit and no-profit persons, ministries, state enterprises, municipalities and other State departments employing two or more employees in any month of a year shall be required to withhold taxes as provided in Article 4 of this Law from payment of salaries and wages and pay the amount withheld to the Government account."*

*Article 61.1 of the Afghan Income Tax Manual requires "The employer and employee have certain reporting obligations with respect to wage withholding that have to be complied with.*

*a) Every year, the employer must prepare an Annual Salary and Tax Statement for each employee subject to wage withholding. At any time that an employee ceases employment, the employer should provide the Annual Salary and Tax Statement at the time of cessation of employment.*

*b) In addition, the employer must prepare an Annual Summary Report of Taxes Withheld and Wage and Tax Statement Transmittal Form. The purpose of this form is to provide the Ministry of Finance with a summary of all of the amounts that the employer has withheld from all of its employees during the year."*

### Questioned Costs

None

### Cause

IRI believed that only the employees were responsible for filing their taxes. As a result, IRI did not properly establish control over documenting, recording, and reporting of these taxes despite being aware of the local tax law requirements.

### Effect

Relying on one individual employee rather than recording the salary withholding taxes in the accounting system opens the process to the possibility of fraud and misuse of funds collected from withholding taxes. Also, IRI cannot ensure that taxes recorded and reported were accurate because there are no internal controls established to verify the amounts.

### Recommendation

IRI should improve its procedures and policies to ensure that adequate internal controls over the process of collecting and depositing employee taxes are in place.

**Finding Number: IRI 3 – Lack of Compliance with Provision of Local Tax Law**

**Nature of Finding: Material Non-Compliance**

Condition

IRI did not deduct and withhold certain withholding taxes from payments made to its landlords from 2008 through 2011. IRI provided a memo dated July 6, 2008 with the subject “RE: New Afghanistan Ministry of Finance Lease Agreement Tax Regulations”. In that memo, IRI confirms their understanding of the withholding tax:

*“IRI recently clarified regulations established by the Afghanistan Ministry of Finance pertaining to landlords and their tenants. IRI has confirmed in July [2008] that the Ministry requires taxes on property to be paid out by the Tenant, and the burden of assuring payment is solely on the Tenant. Tax rates are 20% within 15 days of the contract’s commencement, or 40% after 15 days.*

*After consulting with IRI’s Accounting Department, this memo has been prepared to explain the alterations to the standard IRI lease agreement.*

*To reflect these new regulations, two items of the contract have been altered:*

*Item #4: The contract clarifies what is due to the Landlord, what is due to the Government of Afghanistan, and the total rental rate.*

*Item #7: The contract explicitly discusses the tax regulations and method of payment to the Government of Afghanistan”*

In these instances, the full amount of the lease payment was paid to the landlord, and there was no tax paid by the Tenant (IRI).

Criteria

Under the Afghan Ministry of Finance regulations pertaining to landlords and their tenants, taxes on the property are required to be paid out by the tenant. The burden of ensuring payment rests solely with the tenant.

Afghanistan Income Tax Law – Chapter IX, Article 65 Section 2:

*(2) Tenants of buildings and constructions mentioned in paragraph (1) of this Article are required to pay tax according to the rulings issued by the Ministry of Finance.*

Questioned Costs

None

Cause

IRI failed to follow regulations established by the Afghanistan Ministry of Finance, despite their clear understanding of the tax law.

### Effect

IRI did not fully comply with provisions of the local tax law, therefore; Afghan Ministry of Finance did not receive the rental associated tax revenue. Furthermore, failure to pay the tax on time can result in late fees and potential penalties.

### Recommendation

We recommend that IRI follow local tax law provisions and improve its field office procedures and policies related to landlord withholding taxes to ensure full compliance with the local tax law.

**Finding Number: IRI 4 – Lack of Sufficient Documentation****Nature of Finding: Significant Deficiency in Internal Control**Condition

Upon review of supporting documentation provided by IRI, we found instances where costs were not supported by adequate documentation (i.e. external proof of payment, proper approvals, etc.). There were certain transactions related to payments made for rental cars that were unverifiable and not fully supported by sufficient documentation.

<b>Audit Sample #</b>	<b>Year</b>	<b>Account ID</b>	<b>Voucher Number</b>	<b>Questioned Cost Amount</b>	<b>Auditor Notes</b>
16	2008	48233	48233	\$1800	The cost is for payments for 2 rental vehicles. The field for vehicle model for both vehicles only lists a year "1998". There is no way to determine the reasonableness of the cost. "Payment received" field is empty on both vouchers, no external proof of payment.
20	2008	5218	48233	\$990	There was no external proof of payment for a replacement engine. There is nothing on the vendor invoice acknowledging receipt of payment. Further, the IRI cash disbursement voucher does not have anything written in the "Payment Received" field.
21	2008	5220	47091	\$990	There is also no external proof of payment for "internet ducking" and face plates. The IRI cash disbursement voucher has nothing written in "Payment Received" field.
31	2008	5500	47551	\$10,201	No proof of payment for food from grocery store that was recorded as meeting expenses. A written list of food items on a blank piece of paper with amounts next to it is not sufficient.
9	2009	5132	49072	\$4,040	No external proof of payment provided.

Audit Sample #	Year	Account ID	Voucher Number	Questioned Cost Amount	Auditor Notes
15	2009	5218	53312	\$3,043	There was no external proof of payment provided.
16	2009	5220	49072	\$2,200	There was no external proof of payment provided.
21	2009	5500	52741	\$2,750	No external proof of payment for food for lunch for meeting expenses (\$2750). Cash was given to employee, but no proof that the cash was paid to a vendor.
	<b>Total</b>			<b>\$26,014</b>	

### Criteria

IRI Field Office Accounting Policies and Procedures, III Allowable Costs: *“As a general rule, in order to be allowable all costs must be reasonable, necessary for the project implementation, and adequately documented.”*

OMB Circular A-122, “Cost Principles for Non-Profit Organizations” states that in order to be allowable a cost must have the following attributes:

- *Be reasonable for the performance of the award and be allocable thereto under these principles.*
- *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- *Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- *Be accorded consistent treatment.*
- *Be determined in accordance with generally accepted accounting principles (GAAP).*
- *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- *Be adequately documented.*

### Questioned Costs

\$26,014 in direct costs plus associated indirect costs

### Cause

IRI did not maintain adequate supporting documentation and sufficient verifiable records of payments for rental vehicles to prove that the payments were made.

Effect

USAID paid \$26,014 in costs that were not supported by proper documentation.

Recommendation

We recommend that IRI maintain adequate supporting documentation for all costs submitted for reimbursement by USAID. We also recommend that IRI reimburse \$26,014 in unsupported questioned costs to USAID.

**Finding Number: IRI 5 – Lack of Competitive Procurement Process**

**Nature of Finding: Material Non-Compliance**

Condition

We observed one instance where goods were procured for a total dollar amount over \$5,000 but were not accompanied with adequate supporting documentation showing the (a) solicitation of three or more formal bids, (b) cost and price analysis or (c) prior approval and justification for sole source selection. The following vendor provided goods in excess of \$5,000 for the period under audit without being exposed to a competitive bid process:

**LG Inc. – Air Conditioning units (\$5,740 paid in FY08)**

For IT equipment/data storage, there were 9 air conditioning units purchased from LG. The total amount of the purchases was \$5,740, and was included in the ledger detail as one item. Further, they were all purchased from the same vendor and all invoices contained the same date. However, there was no competitive procurement process, or solicitation of three quotes. This amount exceeds the threshold in IRI's policies and procedures requiring three quotes if the amount is larger than \$5,000. Since these were purchased on the same day from the same vendor, we believe they should have been considered one purchase and subjected to an open and free competition, or a sole source justification.

Criteria

**Title 22, Part 226 of the Code of Federal Regulations**

**§226.43 – Competition**

*“All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.”*

**§ 226.45 Cost and price analysis.**

*“Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.”*

**§ 226.46 Procurement records.**

*“Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) Basis for contractor selection, (b) Justification for lack of competition when competitive bids or offers are not obtained, and (c) Basis for award cost or price.”*

OMB Circular A-122, “Cost Principles for Non-Profit Organizations” states that in order to be allowable a cost must have the following attributes:

- *Be reasonable for the performance of the award and be allocable thereto under these principles.*

- *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- *Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- *Be accorded consistent treatment.*
- *Be determined in accordance with generally accepted accounting principles (GAAP).*
- *Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- *Be adequately documented*

According to IRI's Field Accounting Manual, goods and services provided in excess of \$5,000 require the solicitation of three or more formal written bids.

#### Questioned Costs

\$5,740 in direct costs plus associated indirect costs.

#### Cause

IRI failed to comply with Code of Federal Regulation requirements and its own policies related to procurement of goods and services through open and free competition. IRI staff did not have adequate knowledge of required procurement process and applicable policies.

#### Effect

Failure to use open and free competition for procurements over the \$5,000 threshold may have resulted in the Government not receiving the most competitive price for certain goods and services.

#### Recommendation

We recommend that IRI provide training to its personnel and update its procedures for conducting open and free competition in accordance with federal regulations. We recommend that procedures should also address sole source justification and require prior approval from the funding agency. We also recommend that IRI reimburse \$5,740 in unsupported questioned costs to USAID.

## APPENDIX A – CEPPS MANAGEMENT RESPONSE

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### **Management Response to Finding NDI-1:**

*NDI believes its procedures related to determining rates for travel stipends are sufficient to ensure that the amounts are reasonable in comparison to the costs of similar types of travel within Afghanistan, and that the stipend costs charged to USAID have been reasonable and necessary. In addition, NDI disagrees with the finding that a material weakness in internal controls existed.*

*During the period being audited, NDI managed activities in Afghanistan through its headquarters in Kabul and branch offices in seven provinces. NDI would like to clarify that its regional managers in the branch offices did not set the stipend rates on their own, but rather were involved in a process. The NDI Operations team in Kabul was responsible for establishing the rates for travel stipends for NDI's programming across Afghanistan. The Operations team in Kabul gathered information on travel costs and estimates from the regional managers in the seven branch offices. The Operations team used this information, as well as its own knowledge of costs within Afghanistan to set the travel rates, which were then reviewed by NDI's Finance team in Kabul. Following this review, the Operations team created a chart of the rates by province. The Operations team has periodically reviewed travel costs and adjusted the rates in the chart as necessary. NDI agrees that in the future it will retain copies of the cost information gathered as support for the travel stipend charts.*

### **Management Response to Finding NDI-2:**

*NDI has a strong commitment to procuring goods and services in a transparent, effective and efficient manner in compliance with all applicable federal rules and regulations, statutes, Executive Orders and grantor regulations. NDI has a procurement manual, developed to meet or exceed the federal procurement regulations for grantees, which stresses the need for competitive procurement. The procurement manual is distributed and available to all NDI staff on NDI's internal portal. NDI conducts trainings for staff members on procurement issues on a regular basis, and communicates on specific issues and changes in policies to all staff. NDI will provide additional training to its personnel related to the procurements noted in the findings.*

*The audit samples questioned in the finding represent exceptions in which the procurement processes were not adequately documented. NDI notes that the audit samples were comprised of individual contracts with multiple vendors for driver services, which included the vehicle used by the driver. The prices were negotiated with the individual vendors, and rates ranged between roughly \$1,000 to \$2,000, varying based on factors such as the location where the services were to be provided, the costs for maintenance, the driver's time for providing the services and the size/make of the vehicle.*

*NDI agrees that its written documentation to explain this comparison was lacking. However, the number of different individual negotiations that took place for the same service provided NDI with sufficient information to determine market conditions. The price variances between the contracts with individual vendors provide evidence of the procurement process. NDI believes the cost of the services incurred was necessary and reasonable for the project, met the requirements of reasonableness, consistency and compliance with GAAP under Office of Management and Budget Circular A-122, and, therefore, should be considered allowable under the award.*

### **Management Response to Finding NDI-3:**

*The sample item selected was comprised of payments to drivers in Kabul, under individual contracts with the drivers. The contracts were for a flat monthly rate, as the quantity of services varied during the month. Although one element of the documentation was missing, NDI believes that it regularly ensured and could confirm that the services were provided, as NDI had other ways to monitor performance and delivery of services by the individual drivers, as detailed below.*

*The drivers were contracted to use their own cars to transport NDI's Afghan staff to and from the Kabul office for security reasons and to provide transportation for activities and meetings during the day as needed. The NDI Operations team in Kabul was responsible for the oversight of the drivers. The Transport Manager from the Operations team was positioned in the parking area, and would ensure that all contracted drivers had reported for duty and NDI staff members were loaded into their assigned vehicles. Given that the NDI Afghan staff members involved were dependent on the drivers to get to and from work each day in the period, they could provide frequent feedback to the Operations on the satisfactory performance of the services.*

*NDI believes that, combined with the other supporting documentation (contract and proof of payment), it has adequate documentation to meet the requirements of the Office of Management and Budget's Circular A-122 for the allowability of the cost for the award, and, therefore the cost should be considered allowable.*

## **Management Response to Finding IRI 1:**

*The Draft Audit Report notes that in FY2009 three vehicles charged to the Cooperative Agreement were titled not to IRI but rather to individual employees. Furthermore, the Draft Audit Report notes that quotes were obtained from three different dealers, but in each instance the vehicles ultimately purchased were from a different dealer not originally solicited. Davis thereby questions the cost of these three vehicles.*

*In citing this Finding, the Draft Audit Report fails to appreciate the unique and dangerous circumstances under which IRI Afghan staff operated in executing the Cooperative Agreement, and the fluid nature of the market for used vehicles in Afghanistan at this time.*

*As these vehicles were to be used by staff traveling in rural or otherwise dangerous parts of the country in which Taliban and other anti-government forces operated, it was believed preferable that the vehicles be titled in the name of the employee/driver as opposed to the U.S. based International Republican Institute. These vehicles were used by program staff over the life of the Cooperative Agreement, sold by IRI in 2011 and 2012, and the proceeds credited back into IRI's active grant at that time. Therefore, although they were never formally titled to IRI, it was IRI that purchased them, controlled the use of them, and their disposal.*

*In August 2008 IRI conducted market research for the purchase of three used vehicles for use by Afghan staff working and traveling in rural areas of the south and east of Afghanistan. By the time that the purchase of the vehicles was approved and funds made available in late September 2008, however, in each case the originally preferred vehicle was no longer available from the vendor. This was in fact typical of the Afghan market for used vehicles at this time, given the wear that vehicles typically assumed on the country's rough roads and the resulting high turnover and demand for vehicles. IRI therefore purchased vehicles as similar as possible in price and quality to those originally approved. In one case the purchased vehicle was more expensive than the original bid, whereas in the other two purchased vehicles were less expensive; on balance, the total cost for all three vehicles was \$5,121 less than what had originally been approved.*

## **Management Response to Finding IRI 2:**

*"Finding Number IRI 2" of the Draft Audit Report states that IRI did not record the salary withholding tax for its local national employees in its main financial records and accounting system, and instead an individual employee tracked the payments on a separate spreadsheet, calculating the withholding amount for each employee and depositing the taxes with the Afghanistan Ministry of Finance ("MOF"). Based on this finding, the Draft Audit Report recommends that IRI improve its written procedures to ensure that proper internal controls over the process of collecting and depositing employee taxes are in place.*

*IRI does not agree with this draft Finding, the "material" weakness designation, or the proposed Recommendation because, as set forth below, IRI is already in compliance with the Recommendation with its existing procedures and controls.*

*As shared with Davis, IRI's Field Office Accounting Policy and Procedures provide for IRI's field office accounting staff, such as the local accountant/office manager, to be responsible for field office compliance with local laws including the "[withholding of] payroll taxes" and for "remitting] taxes to local tax authorities regularly." IRI's field offices use the accounting software Quicken for financial record keeping and reporting to, among other things, track field office expenditures. In the Afghanistan field office, IRI elected to*

*appropriately supplement the Quicken records by using Excel software to precisely track each employee's specific withholdings because Excel spreadsheets provided a better method of tracking payroll withholding. Although an organization operating in the U.S. might select another method, this system for the field office reflected the realities of the infrastructure available in Afghanistan at the time and was a common practice used by other non-profit organizations stationed there. Thus, IRI's local accountant/office manager was tasked with maintaining a spreadsheet of salary withholdings of local tax for all local staff employees; the spreadsheet tracked each employee's gross salary and calculated the proper withholding amounts to be paid to the MOF. This employee also paid the appropriate taxes to the MOF and obtained a stamped bank deposit form showing proof of payment of the taxes. This record was kept separate from the payroll documents. The process took place in tandem with IRI's tracking of monthly program expenses via its monthly imprest. Consistent with IRI's Field Office Accounting Policy and Procedures, the monthly Excel spreadsheet reflected amounts that were reconciled to the Quicken gross amounts as well as amounts remitted to Afghan government for taxes withheld.*

*Moreover, contrary to the Draft Audit Report (at 31), IRI relied on more than one individual employee to comply with local salary withholding taxes. In describing its practices, IRI identified an employee by name who administered the practice in Kabul, but IRI never stated that this employee acted alone and without any supervision. This employee was subject to oversight by IRI staff onsite and in Washington, DC – as required by IRI's robust internal controls and accounting policies to ensure the appropriate use of Federal funding. IRI's internal controls include supervision and oversight of field accounting staff by the Resident Country Director, whose responsibilities include ensuring "Field Office's compliance with local law" including "taxes" and "[ensuring] correct tax withholdings and timely remittances" by field office staff. An IRI memorandum, authored by IRI's Resident Country Director during one portion of the Cooperative Agreement, confirms that IRI implemented its internal controls for this grant, stating that the Resident Country Director's responsibilities "included oversight of IRI's withholding and paying of employment taxes for local national staff" and that IRI followed its practices and procedures for the remittance of those taxes. Furthermore, the local accountant/office manager worked closely with, and was managed by, IRI's Washington-based Accounting staff.*

*The documentation produced during the audit thus does not support Davis' findings that IRI "relied on one individual" to administer the withholding/payment of these taxes or that IRI "did not properly establish control over documenting, recording and reporting of [employee withholding taxes]." Draft Audit Report at 32. For the same reasons, IRI also disputes any suggestion that IRI's accounting process in Afghanistan took place outside of IRI's normal accounting procedures.*

*IRI also disputes the assertion that IRI "believed that only the employees are responsible for filing their taxes." Draft Audit Report at 32. This statement is not consistent with the information and documents IRI provided to Davis. IRI has repeatedly stated to Davis that IRI collected the employment taxes from employees and paid them to the Ministry of Finance, as evidenced by documents shared with the auditors. For example, IRI provided Davis with copies of the "Report[s] of Tax Withholding and Bank Deposit Form for Employers," documents confirming IRI's submission of withheld taxes to the Ministry of Finance. IRI also provided a memo to Davis stating that "IRI has been withholding and remitting the appropriate amount [of employment taxes] since 2007."*

*In sum, IRI fully understood its obligations to withhold tax from its employees, and documented that it did so within the framework of robust institutional controls ensuring financial oversight. For the above reasons, IRI believes that the proposed Finding is not supportable and that the “material weakness” designation is not justified.*

### **Management Response to Finding IRI 3:**

*IRI concurs with this Recommendation. IRI acknowledges that its documentation of tax payments made to the Afghan Ministry of Finance are not to IRI’s standard. Although it was able to provide documentation to Davis showing the payment of taxes to the Ministry of Finance, thereby demonstrating an effort to comply with an evolving Afghan tax code, IRI was not able to adequately link these payments to the expected withholding from certain lease agreements.*

### **Management Response to Finding IRI 4:**

*The Draft Audit Report notes “instances where costs were not supported by adequate documentation,” including costs associated with rental vehicles, spare parts, and food items. IRI believes that it has provided all documentation to Davis necessary to support these costs. This documentation includes explanations where necessary describing the methodology for verifying expenses in those situations where more traditional methods were impractical for logistical or security reasons.*

*As part of the Draft Audit Report Davis provides a table describing the questioned costs by Audit Sample Number. Sample Number 16 (Voucher 48233) relates to \$1,800 in payment for rental vehicles. Sample Numbers 31 and 21 (Voucher 52741) relate to the documentation of food items as meeting expenses. Sample Numbers 20, 21 (Voucher 47091), 9, 15 and 16 (Voucher 49072) relate to the purchase of assorted goods.*

*Sample 16 (Voucher 48233), totaling \$1,800, related to payments for rental vehicles, illustrate the difficulty with obtaining full written documentation of costs in Afghanistan, especially given security concerns. In the instance of the specific voucher in question, the cost did not amount to a level that required more formal IRI cost analysis, although as a matter of course IRI staff sought the best possible price for the goods and services obtained. When IRI staff in Afghanistan sought to rent a vehicle, they would canvass several available vendors for comparative prices. Often these vendors would be private individuals rather than more formal agencies, and the negotiation of an appropriate price was an informal matter. The agreed-upon price would then be double checked by IRI accounting staff in Kabul for reasonableness.*

*Sample Numbers 31 and 21 (Voucher 52741), totaling \$12,951, related to the purchase of food items for purposes of IRI-hosted events. IRI provided Davis detailed receipts for the purchase of food items in 2008, and an explanation for the method by which IRI verified an accurate accounting of expenses. In 2008 IRI frequently purchased food to prepare meals for IRI program activities, such as the hosting of members of parliament during caucus meetings. Within the Afghan context, it was necessary to provide refreshment for such guests, and IRI determined that it was most economical to prepare the meals as opposed to ordering them from a restaurant. At this time in Afghanistan there were very few Western-style supermarkets, and those that existed were prohibitively expensive. The more economical street or market vendors from whom IRI purchased its provisions, however, were generally semi-literate and did not provide detailed written receipts at the time. Therefore, in order to document these transactions IRI’s cook would produce a list of purchased goods and costs, and certify the document with his signature. IRI’s finance team would then cross-check this signed list*

*with the purchased items, and ensure the prices were reasonable. As a final measure of accountability, IRI would periodically send an alternate staff member, usually an IRI driver, to purchase food items and check prices.*

*Sample Numbers 20, 21 (Voucher 47091), 9, 15 and 16 (Voucher 49072), totaling \$11,263 related to the purchase of an assortment of goods, including spare car parts and physical security upgrades to an IRI property. In each case IRI provided Davis with invoices signed and stamped by the relevant vendor, which doubled as receipts of payment. In Afghanistan during this time, when there was no effective postal system and most of the population was illiterate, it was not customary to receive a written invoice in advance of, or separate from, payment. The exchange of written documentation, such as it existed, occurred at the time of payment. IRI therefore provided Davis original and certified documentation proving the purchase of allowable goods in the execution of the Cooperative Agreement.*

### **Management Response to Finding IRI 5:**

*The Draft Audit Report cites one instance in which IRI procured nine air conditioning units for a total of \$5,740 without the required “(a) solicitation of three or more formal bids, (b) cost and price analysis or (c) prior approval and justification for sole source selection.” As these purchases were made on the same day and from the same vendor, Davis determines that they constitute a single transaction over \$5,000.*

*This finding highlights the impracticality of applying a standardized policy in an underdeveloped market economy and culture such as that in Afghanistan. In the purchase of most goods, be they food items, spare parts for vehicles, or air conditioning units, IRI staff would travel to the appropriate market and visit several adjacent vendors seeking the best price and quality. At each location, the IRI staff member would solicit informal bids as a starting point for negotiation, and when a starting bid was acceptable would engage in sometimes prolonged haggling to further reduce the price. As in much of Afghanistan, many vendors thus engaged were illiterate, and this process took place verbally. Under such circumstances it was difficult or impossible to obtain formal written bids for goods for purposes of cost analysis. Instead, the purchasing IRI staff relied on their experience in the cost of goods purchased to obtain the best price. These purchases were then checked by IRI accounting staff in Kabul to ensure that they were in line with expectations, and any concerns discussed with the purchasing staff and supervisors.*

*In this specific instance, this process resulted in the purchase of goods that exceeded the \$5,000 threshold established by IRI policy requiring formal bids or cost analysis. Although technically exceeding the IRI threshold, this transaction did not violate federal cost principles as it was made “in a manner to provide, to the maximum extent practical, open and free competition.” Draft Audit Report at 38.*

## APPENDIX B – AUDITOR FURTHER RESPONSE

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### **Auditor Further Response to Finding NDI 1:**

NDI was able to provide supporting documentation for the travel stipend that was originally questioned due to the lack of accurate supporting documentation. As a result, the questioned cost amount has been removed. However, as there was no supporting documentation available detailing the cost survey that took place, it is not possible for the auditors to review the survey process. The lack of documentation would also make it impossible for NDI Washington to review this process. Because the travel stipends were a large part of the expenditures under the agreement, the issue still remains a material weakness.

### **Auditor Further Response to Finding NDI 2:**

NDI acknowledges that written documentation for the costs in question was lacking, and that the procurement processes were not adequately documented. The auditor believes these costs should still be questioned.

### **Auditor Further Response to Finding NDI 3:**

The auditor maintains that there must be documented proof of services rendered, such as the timesheets referenced in the driver contracts, to support payment to the vehicle drivers. The auditor believes that these costs should still be questioned.

### **Auditor Further Response to Finding IRI 1:**

IRI states that the vehicles were titled in the name of the employee/driver for security reasons. However, IRI did not provide documentation from 2008 that explained this situation. Because the vehicles were in the employees names, IRI did not have a legal claim to these vehicles. IRI had no legal standing to dictate what could be done with the vehicles, which posed serious potential challenges and limitations.

IRI is prohibited from using USAID funds on nonexpendable property under this agreement that is titled to an employee, as outlined below in an excerpt from AIDAR.

*752.245-71 Title to and care of property*

*(a) Title to all non-expendable property purchased with contract funds under this contract and used in the Cooperating Country, shall at all times be in the name of the Cooperating Government, or such public or private agency as the Cooperating Government may designate, unless title to specified types or classes of non-expendable property is reserved to USAID under provisions set forth in the schedule of this contract; but all such property shall be under the custody and control of Contractor until the owner of title directs otherwise, or completion of work under this contract or its termination, at which time custody and control shall be turned over to the owner of title or disposed of in accordance with its instructions. All performance guaranties and warranties obtained from suppliers shall be taken in the name of the title owner. (Nonexpendable property is property which is complete in itself, does not lose its identity or become a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of \$500 or more.)*

Further, IRI did not document the unavailability of the vehicles recommended for purchase in the provided selection memos.

We understand that IRI was operating in a dangerous environment, and that may justify not including IRI as a party to the transaction so that the vehicles may be titled to the individuals. We acknowledge the reasonableness of the cost, and have removed the questioned cost amount. In the future, we recommend that IRI seek express written approval from USAID before using USAID funds to purchase vehicles titled to individual employees rather than the organization. Additionally, IRI should update their procurement procedures to document cases where vehicles referenced in selection memos are no longer available for purchase.

**Auditor Further Response to Finding IRI 2:**

IRI did not provide proof that taxes were withheld from the employees, only that certain amounts were remitted to the Afghanistan Government. However, as noted in the finding, the amounts that were remitted often did not tie with amounts that IRI calculated. The assertion that “IRI has been withholding and remitting the appropriate amount [of employment taxes] since 2007,” is not supported by the employee payment receipts. IRI employees signed a payment receipt acknowledging receipt of the gross amount of their salaries, taxes were not withheld from these payments. IRI states that there was proper supervision, however, there is a clear lack of segregation of duties. The same employee should not be calculating, collecting, and remitting the withholding taxes. This problem becomes especially clear when the auditors find inconsistencies with the amounts calculated in the excel spreadsheet and the amounts in the deposit form from the Ministry of Finance. Furthermore, IRI was not appropriately complying with the law. Article 58 of the Afghan Tax Law states that, “*All natural or legal profit and no-profit persons, ministries, state enterprises, municipalities and other State departments employing two or more employees in any month of a year shall be required to withhold taxes as provided in Article 4 of this Law from payment of salaries and wages and pay the amount withheld to the Government account.*” Paying employees the gross amount, and then having someone collect them after the fact is not the same as “withholding”. Additionally, IRI did not provide the auditors any documentation of the transfer of funds from the employees to the person responsible for paying the salary taxes. The auditor believes this still remains a material weakness.

**Auditor Further Response to Finding IRI 3:**

We recognize that IRI concurs with this finding, no Auditor response is required.

**Auditor Further Response to Finding IRI 4:**

With respect to Sample Number 16 referenced in finding IRI 4, there is no basis for security concerns, or any other factor, to prevent IRI from noting the vehicle make and model before entering into a rental agreement. While the cost does not amount to a level that required formal cost analysis by IRI, there is not sufficient documentation with which the Auditor, or anybody else, would be able to judge the reasonableness of the cost. Simply noting the model year on the rental agreement is not sufficient.

With respect to the rest of the items in question, IRI has the responsibility of providing sufficient documentation to show proof that payment was received. Vendors simply being illiterate would not preclude IRI from documenting that cash was received. There were cases where invoices had payment receipt stamps, or the vendor certified payment with a thumbprint. The U.S. based recipient could have used stamps or thumbprints to

document payment of cash to vendors to support payments under the agreement. The auditor believes these costs should still be questioned.

**Auditor Further Response to Finding IRI 5:**

IRI purchased the 9 air conditioning units in question from LG in Afghanistan, and received formal, computer generated invoices for the goods purchased. It is not true that obtaining written quotations for large procurements is impractical or impossible in Afghanistan. Stores and shops in major cities in Afghanistan are able to provide written quotes and invoices upon request. If IRI was not able to obtain formal bids for the air conditioning units, IRI should have documented the “prolonged haggling” and written down the prices available for the air conditioning units in question. The auditors do not believe that Afghanistan being a developing country precludes IRI, a global organization headquartered in Washington, D.C., from fully engaging in open and free competition; or formally documenting at the time why open and free competition was not possible. The auditor believes these costs should still be questioned.

**APPENDIX C – CONSOLIDATING SPECIAL PURPOSE FINANCIAL STATEMENT**

**The Consortium for Elections and Political Process Strengthening  
Consolidating Special Purpose Financial Statement  
June 3, 2008 to September 30, 2013**

<b>Revenue</b>	<b>Actual for the Period</b>	<b>Unsupported Costs</b>	<b>Ineligible Costs</b>	<b>Notes</b>
IRI	\$ 2,291,468	\$ -	\$ -	
NDI	16,541,418	-	-	
<b>Total Revenue</b>	<b>\$ 18,832,886</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Personnel and Fringe Benefits</b>				
IRI	\$ 272,083	\$ -	\$ -	
NDI	1,779,107	10,748	-	C
<b>Travel</b>				
IRI	443,124	8,362	-	A
NDI	2,855,598	-	-	
<b>Equipment and Supplies</b>				
IRI	168,579	-	45,181	D
NDI	388,487	-	-	
<b>Contractual</b>				
IRI	768,183	-	-	
NDI	6,056,531	-	-	
<b>Other Direct Costs</b>				
IRI	324,425	31,754	-	E,F
NDI	2,579,511	33,238	-	B
<b>Total Indirect Costs</b>				
IRI	315,074	-	-	
NDI	2,882,184	-	-	
<b>Total Program Amount</b>	<b>\$ 18,832,886</b>	<b>\$ 84,102</b>	<b>\$ 45,181</b>	

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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:

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- 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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- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: [sigar.pentagon.ccr.mbx.public-affairs@mail.mil](mailto:sigar.pentagon.ccr.mbx.public-affairs@mail.mil)
- Mail: SIGAR Public Affairs  
2530 Crystal Drive  
Arlington, VA 22202