

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 17-05 Financial Audit

USAID's Afghan Civic Engagement Program: Audit of Costs Incurred by Counterpart International, Inc.

In accordance with legal requirements, SIGAR has redacted certain information deemed proprietary or otherwise sensitive from this report



SIGAR 17-05-FA/ACEP

OCTOBER
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 4, 2013, the U.S. Agency for International Development (USAID) awarded a \$70 million, 5-year cooperative agreement to Counterpart International, Inc. (Counterpart) to fund the Promoting Afghan Civic Education program. The program budget also required Counterpart to provide almost \$2.5 million in cost share funds. The program was intended to promote Afghan civil society and media engagement to enable Afghan citizens to influence public policy, monitor government accountability, and serve as advocates for political reform. In 2013, the program was re-named the Afghan Civic Engagement Program (ACEP), and Counterpart's cost share requirement was reduced to \$2.4 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$23,796,585 charged to the cooperative agreement from December 4, 2013, through September 30, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Counterpart's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Counterpart has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Counterpart's Special Purpose Financial Statement. See Crowe's report for the precise audit objectives.

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

October 2016

USAID's Afghan Civic Engagement Program: Audit of Costs Incurred by Counterpart International, Inc.

SIGAR 17-05-FA

WHAT THE AUDIT FOUND

Crowe identified three deficiencies in Counterpart's internal controls and three instances of noncompliance with the terms and conditions of the ACEP cooperative agreement. Specifically, Crowe found that Counterpart could not provide adequate supporting documentation for travel costs of \$610 and for \$745 in cost share expenses. Crowe also noted that a subrecipient used an incorrect overhead rate, which resulted in an overcharge for general and administrative expenses. However, the subrecipient reimbursed the overcharge to the government, so Crowe did not question these costs.

As a result of the internal control deficiencies and instances of noncompliance, Crowe identified \$1,355 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

Category	Unsupported	Ineligible	Total Questioned Costs
Travel	\$610	\$0	\$610
Cost Share	\$745	\$0	\$745
Totals	\$1,355	\$0	\$1,355

Crowe obtained and reviewed two prior audit reports, which included a SIGAR financial audit (SIGAR 14-15-FA, *USAID's Initiative to Promote Afghan Civil Society Project: Audit of Costs Incurred by Counterpart International, Inc.*, January 3, 2014), pertinent to Counterpart's financial performance under the agreement. Crowe identified and followed up on five audit findings. After reviewing and assessing information on the applicable findings, Crowe concluded that Counterpart took adequate corrective actions to address these findings.

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

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$1,355 in questioned costs identified in the report.
2. Advise Counterpart to address the report's three internal control findings.
3. Advise Counterpart to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 24, 2016

The Honorable Gayle E. Smith
Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by Counterpart International, Inc. (Counterpart) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Afghan Civic Engagement Program (ACEP).¹ Crowe's audit covered \$23,796,585 in expenditures charged to the cooperative agreement from December 4, 2013, through September 30, 2015. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$1,355 in total questioned costs identified in the report.**
- 2. Advise Counterpart to address the report's three internal control findings.**
- 3. Advise Counterpart to address the report's three noncompliance findings.**

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-082)

¹ USAID awarded cooperative agreement number AID-306-A-14-00001 to Counterpart to implement the Promoting Afghan Civic Education program (later renamed ACEP), which was intended to promote civil society and media engagement to enable Afghan citizens to influence public policy, monitor government accountability, and serve as advocates for political reform.



Counterpart International, Inc.
Special Purpose Financial Statement
Afghan Civic Engagement Program (ACEP)
For the Period December 4, 2013, through September 30, 2015
(With Independent Auditor's Report Thereon)

Table of Contents

TRANSMITTAL LETTER.....	1
SUMMARY.....	2
INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT	5
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	8
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT	10
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL.....	11
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE	13
SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	15
SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT AND REVIEW FINDINGS.....	18
APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS	20
APPENDIX B: AUDITOR’S REBUTTAL	25



www.crowehorwath.com

© Copyright 2016 Crowe Horwath LLP

Crowe Horwath LLP is an independent member of Crowe Horwath International, a Swiss verein. Each member firm of Crowe Horwath International is a separate and independent legal entity. Crowe Horwath LLP and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath International or any other member of Crowe Horwath International and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath International or any other member of Crowe Horwath International. Crowe Horwath International does not render any professional services and does not have an ownership or partnership interest in Crowe Horwath LLP. Crowe Horwath International and its other member firms are not responsible or liable for any acts or omissions of Crowe Horwath LLP and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath LLP.

**Crowe Horwath LLP**

Independent Member Crowe Horwath International

1455 Pennsylvania Avenue N.W., Suite 700

Washington, D.C. 20004-1008

Tel 202.624.5555

Fax 202.624.8858

www.crowehorwath.com

Transmittal Letter

October 4, 2016

To the Board of Directors of Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

We appreciate the opportunity to provide to you our report reflecting upon the procedures that we have completed during the course of our financial audit of Counterpart International, Inc.'s ("Counterpart") cooperative agreement number AID-306-A-14-00001 with the United States Agency for International Development ("USAID") funding the Afghan Civic Engagement Program.

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

When preparing our report, we considered comments, feedback, and interpretations of Counterpart International, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of Counterpart's Afghan Civic Engagement Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

Counterpart International, Inc. (“Counterpart” or “Counterpart International”) entered into cooperative agreement number AID-306-A-14-00001 with the United States Agency for International Development (“USAID”) on December 4, 2013, to provide support for a program in Afghanistan aimed at promoting Afghan civil society and media engagement. Ultimately, the program, called the Promoting Afghan Civic Education (“PACE”) program, was intended to enable Afghan citizens to influence public policy, monitor government accountability, and serve as an advocate for political reform. With the issuance of modification number 2 to the cooperative agreement, PACE was renamed the Afghan Civic Engagement Program (“ACEP”).

The agreement’s period of performance spans December 4, 2013, through December 3, 2018. Crowe’s audit scope included the period December 4, 2013, through September 30, 2015. USAID approved a budget of \$72,461,119, which includes \$70,000,000 in Federal funding and \$2,461,119 in required cost share that Counterpart is required to provide from non-Federal resources. The budget for the full award period was subsequently revised to include a total estimated value of \$72,389,495. The revised budget reduced the cost share requirement to \$2,389,495 while leaving the Federal share of the budget unchanged.

Counterpart reported numerous key accomplishments during the audit period. Examples of such programmatic outcomes reported by Counterpart as having been achieved prior to September 30, 2015, included (unaudited by Crowe):

- Counterpart organized an international exposure visit to Bosnia and Herzegovina for 33 Afghans to learn about the role of youth engagement in post-conflict, multi-ethnic environments;
- Established an annual, national summit for Afghan women leaders to build collaborative networks in which more than 200 civil society activists and directors of women-led organizations have attended in the first two years;
- Conducted 2,090 civic education sessions reaching more than 53,300 people;
- Awarded more than \$1.7 million in grant funding to Afghan civil society and media organizations media; and
- Gathered 1,500 youth participants in eight regional meetings to draft the country’s first National Youth Policy.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Counterpart’s Afghan Civic Education Program.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the 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 accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.



Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of Counterpart's 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 Counterpart 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 Counterpart has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of the audit included the period December 4, 2013, through September 30, 2015, for ACEP. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Activities;
- Allowable Costs;
- Cash Management;
- Matching and Cost Share;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting; and
- Subrecipient Monitoring.

Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by Counterpart. The system of internal control is intended to provide reasonable assurance of

achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the cooperative agreement. Crowe identified – through review of the cooperative agreement executed by and between Counterpart and USAID and subsequent modifications, the Code of Federal Regulations (“CFR”), and the Automated Directives System (“ADS”) guidance documents – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, letter of credit draw downs, procurements, subrecipients, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess Counterpart's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements (“NICRA”), and if adjustments were made, as required and applicable. Amounts charged to the Government for indirect costs were reported and calculated on the quarterly financial reports submitted to the Government. Therefore, amounts reported and accompanying supporting documentation were subject to testing for purposes of assessing compliance with the NICRA provisions.

Regarding Audit Objective 4, Crowe inquired of both Counterpart and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow-up. Two such reports were identified – one issued by SIGAR and another issued by Counterpart's external auditors based on their audit conducted in accordance with OMB Circular A-133. Five prior audit findings were identified for follow-up.

Summary of Results

Upon completion of Crowe's procedures, Crowe issued an unmodified opinion on the SPFS.

With regard to matters of internal control and compliance, Crowe identified three deficiencies that it chose to report; however, none of the three matters were classified as significant deficiencies or material weaknesses.

Crowe also did not identify any instances of material noncompliance with applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement. However, three matters of immaterial noncompliance were reported in accordance with SIGAR's reporting requirements. \$1,355 in costs was questioned as a result of the noncompliance.

Lastly, Crowe requested copies of prior audits, reviews, and evaluations pertinent to Counterpart's financial performance under the cooperative agreement. Per communications with Counterpart and USAID as well as Crowe's review of publicly available information, there were two such audit reports issued during the audit period. Five audit findings required follow-up by Crowe. One of the issues identified in prior audit findings – that pertaining to source documentation to support expenses – is repeated in our audit. However, based on the frequency and amount of the error being immaterial, Crowe concluded that the corrective action taken with respect to all five of the prior findings and recommendations was adequate. The specific results of the follow-up procedures and the status of the findings are noted within **SECTION 2**.

Summary of Management Comments

Management agreed with the facts presented in findings 2016-01 and 2016-02. However, for finding 2016-01, management considered the amounts charged to be allowable based upon the environmental circumstances applicable to Afghanistan and the reasonableness of the amounts advanced to conference attendees. Counterpart disagreed with Crowe's recommendation for finding 2016-02. The disagreement

resulted from an inability for Counterpart to obtain the necessary report following the subject subrecipient's (TORAN) ceasing operations. Counterpart agreed with finding 2016-03.

References to Appendices

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

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors of Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of Counterpart International, Inc. ("Counterpart") and related notes to the Statement, for the period December 4, 2013, through September 30, 2015, with respect to the Afghan Civic Engagement Program ("ACEP") funded by cooperative agreement number AID-306-A-14-00001.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

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

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

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

(Continued)

Opinion

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

Basis of Presentation

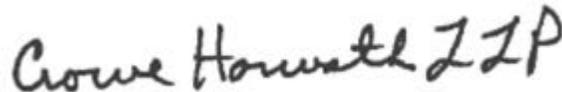
We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by Counterpart in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of cooperative agreement number AID-306-A-14-00001, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Award referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated September 30, 2016, on our consideration of Counterpart's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Counterpart's internal control over financial reporting and compliance.



Crowe Horwath LLP

September 30, 2016
Washington, D.C.

Counterpart International, Inc.
Special Purpose Financial Statement
Afghan Civic Education Program (ACEP) Agreement No. AID 306-A-14-00001
For the Period December 04, 2013, through September 30, 2015

	<u>Questioned Costs</u>				
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
USAID - No. AID 306-A-14-00001	\$ 70,000,000	\$ 23,796,585			
Total Revenue	\$ 70,000,000	\$ 23,796,585			4
<i>Costs Incurred</i>					
Personnel	\$ 8,466,061	\$ 2,999,835			5
Fringe	2,303,452	932,815			
Travel	958,851	366,496			A
Equipment	65,000	-			
Supplies	229,816	141,522			
Contractual	44,515,783	14,043,496			B
Other	4,563,571	2,343,480		\$ 610	
Indirect Costs	\$ 8,897,466	\$ 2,968,940			6
Total Costs Incurred	\$ 70,000,000	\$ 23,796,585	\$ -	\$ 610	
Balance		-			7

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

Counterpart International, Inc.
Notes to the Special Purpose Financial Statement
For the Period December 4, 2013, through September 30, 2015

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Agreement Number AID 306-A-14-00001 for the Afghan Civic Engagement Program ("ACEP") for the period December 4, 2013 through September 30, 2015. The Statement presents only a selected portion of the operations of the Counterpart International Inc. ("Counterpart"). It is not intended to and does not present the financial position, changes in net assets, or cash flows of Counterpart. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are presented in accordance with accounting principles generally accepted in the United States of America and, therefore, the Statement is reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. Costs incurred in foreign currency (Afghani) are converted into the reporting currency (United States dollar) by applying the weighted average monthly rate based upon the bank rates used to transfer funds between the U.S. dollar account and the Afghani account.

Note 4. Revenues

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

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved agreement budget adopted as a component of the cooperative agreement dated December 4, 2013.

Note 6. Indirect Costs

The Statement is prepared based on the approved provisional rate of fiscal year ("FY") 2014 according to the Negotiated Indirect Cost Rate Agreement ("NICRA") with USAID. Counterpart did not have the approved final rate for FY2014 and provisional rate for FY2015 as of April 20, 2016.

(Continued)

Note 7. Balance

As of September 30, 2015, there is no outstanding balance under the Agreement as the Statement is prepared under the accrual basis of accounting as described in Note 2. The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

Note 8. Currency

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

Note 9. Matching of Cost Share Expenditures

Counterpart has a cost share requirement of \$2,461,119. The total value of costs incurred or in-kind contributions received during the period was \$1,224,596. Matching costs are not reflected in the Statement.

Note 10. Subrecipients

Counterpart awarded 85 subgrants to 56 local grantees and three subawards to sub-partners in which total costs were incurred for \$12,226,785 during the period.

Note 11. Program Status

The cooperative agreement for ACEP for the period remains active. The period of performance for the cooperative agreement is scheduled to conclude on December 3, 2018, as noted in cooperative agreement dated December 4, 2013. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of final negotiated indirect cost rate agreements.

Note 12. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the December 4, 2013, through September 30, 2015, end of the period covered by the Statement. Management has performed their analysis through September 30, 2016.

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

Note A. Insufficient Support for Airfare Travel Expenses

Finding 2016-01 questioned \$610 due to lack of source documentation to support travel expenses for individuals attending program-sponsored events.

Note B. Unavailable Support for Cost Share Transactions

Finding 2016-02 questioned \$745 as a result of Counterpart's not having obtained or otherwise being able to produce source documentation associated with two cost share transactions. The questioned cost amount is not reflected on the Statement due to the Statement's only presenting Federal expenditures.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors of Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Counterpart International, Inc. ("Counterpart"), and related notes to the Statement, for the period December 4, 2013, through September 30, 2015, with respect to the Afghan Civic Engagement Program ("ACEP") funded by cooperative agreement number AID-306-A-14-00001. We have issued our report thereon dated September 30, 2016.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement, we considered Counterpart's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Counterpart's internal control. Accordingly, we do not express an opinion on the effectiveness of Counterpart's internal control.

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

(Continued)

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We identified three deficiencies in internal control that we communicated to management as identified in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2016-01, 2016-02, and 2016-03.

We noted certain matters that we reported to Counterpart's management in a separate letter dated September 30, 2016.

Counterpart International's Response to the Findings

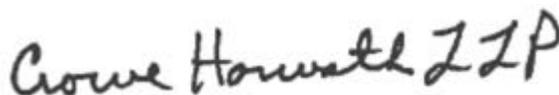
Counterpart's response to the findings identified in our audit are described in Appendix A to the audit report. Counterpart's response was not subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

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

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

Crowe Horwath LLP

September 30, 2016
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors of Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (“the Statement”) of Counterpart International, Inc. (“Counterpart”), and related notes to the Statement, for the period December 4, 2013, through September 30, 2015, with respect to the Afghan Civic Engagement Program (“ACEP”) funded by cooperative agreement number AID-306-A-14-00001. We have issued our report thereon dated September 30, 2016.

Management’s Responsibility for Compliance

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2016-01, 2016-02, and 2016-03 in the accompanying Schedule of Findings and Questioned Costs.

Counterpart International’s Response to the Findings

Counterpart’s response to the findings identified in our audit are described in Appendix A to the audit report. Counterpart’s response was not subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed

in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

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

Crowe Horwath LLP

September 30, 2016
Washington, D.C.

SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2016-01: Insufficient Support for Airfare Travel Expenses

Deficiency and Non-Compliance

Condition: On September 16 – 19, 2014, Counterpart hosted a provincial and regional election workshop in Kabul, Afghanistan. In connection with this event, Counterpart funded 99 travel tickets (air or ground) totaling \$8,000. During our review of travel expense forms and the supporting documentation provided with the expense forms, we noted that the costs incurred for five return flights for participants were unsupported by flight itineraries showing the ticket cost or evidence that the participants took the flights. The total funds advanced to the participants for the return flights was 34,985 Afghanis, which converted to \$610.

Criteria: In accordance with OMB Circular A-122, for costs to be allowable, they must be adequately documented.

Counterpart's *Field Financial Operations Manual* includes minimum backup documentation requirements. The minimum requirements include, but are not limited to, original invoices or receipts. Original receipts for expense forms are denoted as including boarding passes, ticket receipts, and copies of visas.

Questioned costs: \$610

Effect: Funds provided by Counterpart may not have been used, in their entirety, for return flights, but rather may have been retained by participants and used for other purposes.

Cause: Counterpart indicated that individuals did not possess the economic means to purchase return trip tickets out-of-pocket and, upon return to their home provinces, did not have the means to return supporting documentation for flights to Counterpart.

Recommendation: We recommend that Counterpart either locate documentation showing the cost of each return trip and evidence that the flights were taken or otherwise reimburse the Government \$610.

(Continued)

Finding 2016-02: Unavailable Support for Cost Share Transactions

Deficiency and Non-Compliance

Condition: During our testing of cost share transactions, we identified one sample item that was inadequately supported. Specifically, one of the organizations that Counterpart funded – TORAN – did not provide documentation to Counterpart in support of two vouchers consisting of:

- 1) Office rent of 30,000 AFS (\$520); and
- 2) Salary for [REDACTED] for work performed in August through October of 2014 in the amount of 20,500 AFS (\$355).

Regarding office rent, no source documentation could be provided. Regarding salary for [REDACTED], Counterpart was able to provide a salary agreement. However, only one timesheet supporting work performed was available for review and evaluation; the timesheet covered August 2014. The remaining timesheets demonstrating employment for the months of September and October were not provided.

Whereas Counterpart applied the TORAN costs to its schedule of costs used to meet the cost share requirement, \$745 – the portion of the two vouchers noted above that is inadequately supported – is in question.

Criteria: Pursuant to 22 CFR Part 226.23, costs utilized to meet cost share requirements must be allowable under the applicable cost principles. In accordance with OMB Circular A-122, for costs to be allowable, they must be adequately documented. Therefore, for costs contributing to the cost share to be considered allowable, such costs must be adequately documented/supported.

Counterpart's *Cost Share Manual* states that, "Once the cost share has been booked in the field office, the cost share documentation must be maintained in the field files."

Questioned costs: \$745

Effect: The Government may provide greater than its anticipated share of total program costs.

Cause: Counterpart did not require submission of supporting documentation by TORAN during the period of performance, and the entity is no longer in business. Therefore, the documents could not be provided.

Recommendation: We recommend that Counterpart either reimburse the Government \$745 or otherwise identify \$745 in allowable, eligible costs incurred that were paid from non-Federal sources to replace the \$745 in inadequately supported TORAN costs.

Finding 2016-03: Overcharge of Subrecipient Indirect Costs

Deficiency and Non-Compliance

Condition: When testing a sample of transactions, we identified one June 2014 overhead/general and administrative (G&A) charge for Counterpart's subrecipient, Internews, which included an overcharge of \$13,617. Per review of documentation provided by Counterpart, Internews used a G&A rate of 11 percent when 10 percent should have been used as per the Negotiated Indirect Cost Rate Agreement (NICRA). The overcharge was disclosed to Counterpart via a letter from Internews dated August 12, 2016.

The amount was reimbursed to Counterpart and the U.S. Government by virtue of an adjustment made to indirect costs reported on the federal financial report provided by Internews to Counterpart. The adjustment occurred as Internews revised amounts charged to align with updated indirect cost rates.

Criteria: Internews's NICRA established a general and administrative overhead rate of 10 percent.

Questioned costs: None, due to the costs having already been reimbursed to the Government as of the date of this report.

Effect: Additional funds were temporarily advanced to Internews that could otherwise have been utilized to deliver or execute services and activities for the program.

Cause: Internews utilized the overhead rate that was originally established for estimation purposes, and Counterpart did not detect the use of the incorrect rate when reviewing Internews's costs.

Recommendation: Whereas the funds have been reimbursed to the Government, no additional action is recommended with respect to the \$13,617. With regard to detecting such errors in the future, we recommend that Counterpart issue a memorandum to individuals reviewing subrecipient financial reports and indirect cost charges that includes a reminder to agree amounts used in billing to either the subaward agreement or the NICRA, whichever is most current.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Crowe reviewed two audit reports that included findings and recommendations for Counterpart International that could have a direct and material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. The findings were identified within the following reports:

- *Counterpart International, Inc. Audit Report, Financial and Federal Award Compliance Examination for the years ended September 30, 2014 and September 30, 2015;*
- *Financial Audit of the Fund Accountability Statement of Counterpart International for Cooperative Agreement number 306-A-00-05-00511-00, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction.*

The applicable findings have been reflected, below, along with the status of the prior audit findings.

Finding 2013-001: Executive Order (EO) 13224

Report: *Counterpart International, Inc. Audit Report, Financial and Federal Award Compliance Examination for the year ended September 30, 2014.*

Issue: The audit disclosed instances where physical evidence supporting a due diligence process was not available for inspection.

Status: During our testing procedures, we noted that Counterpart retained evidence of its due diligence processes. This finding is not repeated.

Finding 2013-002: Subrecipient Monitoring

Report: *Counterpart International, Inc. Audit Report, Financial and Federal Award Compliance Examination for the year ended September 30, 2014.*

Issue: The audit disclosed that Counterpart's financial monitoring activities were not consistently documented in its subrecipient files. In addition, Counterpart did not ensure that subrecipients were audited as required by ADS 591.

Status: We obtained copies of audit reports and the audit report checklist that is certified and provided to Counterpart by subrecipients indicating whether or not audit requirements have been triggered. This finding is not repeated. However, we did identify a matter with respect to the certifications received from the subrecipients and the availability of sufficient, appropriate audit evidence to support that the foreign subrecipients did not exceed \$300,000 in USAID expenditures within the applicable fiscal years. We reported these matters to management within a letter dated September 30, 2016.

Finding 2013-003: Procurement

Report: *Counterpart International, Inc. Audit Report, Financial and Federal Award Compliance Examination for the year ended September 30, 2014.*

Issue: Counterpart did not consistently document its conclusions with respect to the procurement (and sole sourcing) of goods and services in excess of the procurement threshold.

Status: During our testing of 73 procurements, we noted that Counterpart documented its procurement decisions and retained supporting documentation pertaining to receipt and evaluation of bids. We did not identify any exceptions with respect to documentation of procurement decisions. This finding is not repeated.

(Continued)

Finding 2013-1: Missing or Insufficient Source Documentation to Support Expenses

Report: *Financial Audit of the Fund Accountability Statement of Counterpart International for Cooperative Agreement number 306-A-00-05-00511-00*, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: The audit reported that Counterpart could not provide records, or provided insufficient records, to support some transactions selected for testing. The original audit report listed \$815,317 of unsupported costs, including \$689,130 in direct costs and \$126,187 in associated indirect costs. Per USAID's letter to Counterpart dated March 5, 2014, the questioned amount was reduced to \$588,092. Subsequent to that letter, USAID further reduced the amount of inadequately supported costs to \$545,014 as referenced in its letter to Counterpart dated June 25, 2014. Management noted that the missing documentation was contained in boxes that were destroyed in a storm in June 2012 at Counterpart's off-site records archive vendor facility.

Status: During our testing of 143 Federal transactions, we identified one transaction for which adequate support was not provided. In addition, we identified one cost share transaction for which supporting documentation was unavailable. See findings 2016-01 and 2016-02 of this report.

Finding 2013-2: Need to Review the Excluded Parties List

Report: *Financial Audit of the Fund Accountability Statement of Counterpart International for Cooperative Agreement number 306-A-00-05-00511-00*, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: For all of the 161 transactions tested, there was no documentation provided to support that Counterpart conducted reviews of vendors in the Excluded Parties List System prior to entering into vendor contracts to verify that the vendors were not suspended, debarred, or otherwise excluded from receiving Federal funds.

Status: During our testing of 73 procurements, we noted that Counterpart retained evidence of its having executed procedures to determine whether vendors were suspended, debarred, or otherwise excluded from receiving Federal funds. This finding is not repeated.

Appendix A: Views of Responsible Officials

COUNTERPART
INTERNATIONAL



September 30, 2016

Bert Nuerhring
Crowe Horwath LLP
1455 Pennsylvania Avenue N.W., Suite 700
Washington, D.C. 20005

Re: Financial Audit of Counterpart International, Inc.'s Afghan Civic Engagement Program

Dear Mr. Nuehring,

Attached please find Counterpart International Inc.'s (Counterpart) management response to Crowe Horwath's report to be submitted to Office of the Special Inspector General for Afghanistan Reconstruction with respect to financial audit of Counterpart's cooperative agreement number AID-306-A-14-00001 with the United States Agency for International Development ("USAID") funding of the Afghan Civic Engagement Program.

We appreciate the opportunity to respond to the findings and to provide additional information and clarification.

Please let us know if you have any clarifying questions on our submission.

Sincerely,



Derek Hodkey
Chief Operating Officer

2345 Crystal Drive, Suite 301, Arlington, VA 22202
Phone: 571.447.5700 Fax: 703.412.5035 www.counterpart.org



Counterpart International Inc. Management Response to Audit Findings

SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2016-01: Insufficient Support for Airfare Travel Expenses

Questioned costs: \$610

Effect: Funds provided by Counterpart may not have been used, in their entirety, for return flights, but rather may have been retained by participants and used for other purposes.

Cause: Counterpart indicated that individuals did not possess the economic means to purchase return trip tickets out-of-pocket and, upon return to their home provinces, did not have the means to return supporting documentation for flights to Counterpart.

Recommendation: We recommend that Counterpart either locate documentation showing the cost of each return trip and evidence that the flights were taken or otherwise reimburse the Government \$610.

Management Response:

Counterpart/ACEP conducted a conference on provincial and regional elections in Kabul from September 16- September 19, 2014. The purposes of the conference were to:

1. Increase the number of voters, including providing increased access and autonomy to female voters;
2. Improve the level of voter knowledge leading up to elections to ensure greater electoral legitimacy; and
3. Improve Afghan citizens' knowledge of government, political processes and their intended role in civic life, building their potential for participation.

A total of 99 individuals from 34 provinces attended the conference. In accordance with its approved work plan and budget, Counterpart/ACEP was responsible for all costs related to holding the conference, including transportation, lodging, meals and incidental expenses of participating individuals. The participants traveled to Kabul either by air or by road from their respective provinces depending on proximity, availability of the mode of transportation, and security.

Of the 99 participating individuals, 5 were unable to prepay round trip airfares because of their economic/financial positions. In accordance with Counterpart practice, which is consistent with common, local in-country practice, Counterpart provided funds for the return flight based on the actual cost of the inbound airfare. The five participants acknowledged receipt of funds for round trip airfare and M&IE. Counterpart typically requests that participants provide a copy of the return flight ticket once they reach their destination. However, due to the lack of availability of internet access, scanners or post office facilities in their home provinces, it is not always feasible for the participants to send the documentation to Counterpart /Kabul. That is the case for these five individuals.

The round trip airfare costs are consistent with the cost principles under OMB A-122, (the principles in effect for the period of the audit), as they meet the standards of allowability, allocability and reasonableness. The incurred costs were ordinary and necessary for the performance of this activity; were used to benefit ACEP's objectives and, as such, are allocable to the award; and are reasonable in that the costs do not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.



Finding 2016-02: Unavailable Support for Cost Share Transactions

Questioned costs: \$745

Effect: The Government may provide greater than its anticipated share of total program costs.

Cause: Counterpart did not require submission of supporting documentation by TORAN during the period of performance, and the entity is no longer in business. Therefore, the documents could not be provided.

Recommendation: We recommend that Counterpart either locate the supporting documentation or reimburse the Government \$745.

Management Response:

Following is Counterpart's Management Response for the two questioned items related to TORAN's reported cost share:

1) Office rent of 30,000 AFS (\$520)

Counterpart was unable to locate the lease agreement and proof of payment of TORAN's office rent for August-October 2014 in its field office files. However, Counterpart respectfully notes that the rate of monthly rent was consistent in the two reported periods June – July 2014 and August – October 2014 and was supported with Cost Share Certificate from TORAN certifying "All above stated cost share contributions are reasonable and necessary for the proper and efficient accomplishment of grant project objective."

2) Salary for [REDACTED] for work performed in August through October of 2014 in the amount of 20,500 AFS (\$355).

Counterpart has a copy of [REDACTED] employment agreement as well as the August 14 pay slip and corresponding timesheet. Counterpart reviewed the employment agreement and verified that his monthly salary was AFN 15,000, and thus finds the reported amount of AFN 41,000 for the August 1 – October 22 salary accurate, 50 percent of that amount (AFN 20,500) was reported as cost share, which Counterpart finds reasonable. While the timesheets and pay slips for [REDACTED] for the periods of September 2014 and October 2014, were not located in Counterpart/ACEP office, it is reasonable to conclude that the amount of cost share reported for that period is correct as it is consistent with the previous period.

It is not possible for Counterpart to follow up with TORAN to obtain the missing documentation, as the organization ceased to exist.

Counterpart respectfully does not agree with the auditor's recommendation of "reimburse the Government \$745." The questioned costs were related to reported cost share; no funds were charged to the USAID award. Therefore, no funds are due to be reimbursed. Even if it is determined that the \$745 is not eligible to be reported as cost share, Counterpart is confident that it can meet its cost share requirement through other non-U.S. Government sources.



Finding 2016-03: Overcharge of Subrecipient Indirect Costs

Questioned costs: None, due to the costs having already been reimbursed to the Government as of the date of this report.

Effect: Additional funds were temporarily advanced to Internews that could otherwise have been utilized to deliver or execute services and activities for the program.

Cause: Internews utilized the overhead rate that was originally established for estimation purposes, and Counterpart did not detect the use of the incorrect rate when reviewing Internews's costs.

Recommendation: Whereas the funds have been reimbursed to the Government, no additional action is recommended with respect to the \$13,617. With regard to detecting such errors in the future, we recommend that Counterpart issue a memorandum to individuals reviewing subrecipient financial reports and indirect cost charges that includes a reminder to agree amounts used in billing to either the subaward agreement or the NICRA, whichever is most current.

Management Response

Counterpart agrees with the Recommendation.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Finding 2013-002: Subrecipient Monitoring

Report: *Counterpart International, Inc. Audit Report, Financial and Federal Award Compliance Examination for the year ended September 30, 2014.*

Issue: The audit disclosed that Counterpart's financial monitoring activities were not consistently documented in its subrecipient files. In addition, Counterpart did not ensure that subrecipients were audited as required by ADS 591.

Status: We obtained copies of audit reports and the audit report checklist that is certified and provided to Counterpart by subrecipients indicating whether or not audit requirements have been triggered. This finding is not repeated. However, we did identify a matter with respect to the certifications received from the subrecipients and the availability of sufficient, appropriate audit evidence to support that the foreign subrecipients did not exceed \$300,000 in USAID expenditures within the applicable fiscal years. We reported these matters to management within a letter dated **MONTH DD, 2016**.

Management Response:

According to Standard Provisions for Non-US Nongovernmental Organizations, M.2 Accounting, Audit and Records (December 2012), annual audits are required for any non-US nongovernmental organization for any fiscal year in which the recipient expends a combined total of \$300,000 or more in USAID awards. Neither Shuhada Organization (SO) nor Women Activities & Social Services Association (WASSA) expended a total of \$300,000 or more in USAID awards in the years in question. Therefore, neither organization was required to have an annual audit.

Shuhada Organization "SO"

SO certified that the organization did not expend a combined total of \$300,000 or more in USAID awards, either received directly or through another USAID contractor or recipient in 2014 and 2015. SO's initial audit



certification dated September 2014 had an error as it referenced a prior award, IPACS II project. The revised certification in January 2015 corrected the error and also updated the certification based on actual expenditures for the accounting year. SO's 2014 Audit Report, Schedule 12 "Project Costs" reported total expenditures under USAID awards amounting to \$140,338 from two subgrants from Counterpart.

Women Activities & Social Services Association "WASSA"

2014

WASSA certified that the organization expected to expend \$300,000 or more in all USAID awards. However, the actual expenditures from all USAID awards was below the required threshold. WASSA's auditors, HLB IJAZ Tabussum & Co, Chartered Accountants ("HLB"), completed the annual audit of WASSA for 2014. WASSA's 2014 Audit Report, Schedule 10 "Project Expenditure" reported total expenditures under USAID awards amounting to \$187,282 from three subgrants from Counterpart. Both WASSA and their auditors confirmed that the actual spending in 2014 was less than \$300,000.

2015

WASSA certified that the organization did not expend a combined total of \$300,000 or more in USAID awards, either received directly or through another USAID contractor or recipient in 2015.

Finding 2013-1: Missing or Insufficient Source Documentation to Support Expenses

Report: Financial Audit of the Fund Accountability Statement of Counterpart International for Cooperative Agreement number 306-A-00-05-00511-00, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

Issue: The audit reported that Counterpart could not provide records, or provided insufficient records, to support some transactions selected for testing. The original audit report listed \$815,317 of unsupported costs, including \$689,130 in direct costs and \$126,187 in associated indirect costs. Per USAID's letter to Counterpart dated March 5, 2014, the questioned amount was reduced to \$588,092. Subsequent to that letter, USAID further reduced the amount of inadequately supported costs to \$545,014 as referenced in its letter to Counterpart dated June 25, 2014. Management noted that the missing documentation was contained in boxes that were destroyed in a storm in June 2012 at Counterpart's off-site records archive vendor facility.

Status: During our testing of 143 Federal transactions, we identified one transaction for which adequate support was not provided. In addition, we identified one cost share transaction for which supporting documentation was unavailable. See findings 2016-01 and 2016-02 of this report.

Management Response:

See Counterpart's management response to findings 2016-01 and 2016-02.

Appendix B: Auditor's Rebuttal

Crowe Horwath LLP ("Crowe" or "we" or "us") has reviewed the letter dated September 30, 2016, containing Counterpart International's ("Counterpart") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with an audit finding or recommendation. In those instances where management has not disputed the finding or recommendation, did not provide new information or documentation, or provided additional information pertaining to matters not reported as audit findings, no rebuttal has been provided or is required.

Finding 2016-01

Management disagreed with Crowe's conclusion that the costs were unallowable. The disagreement was based on management's conclusion that the \$610 in costs are reasonable, allocable to the award, and were incurred in the performance of activities to benefit the award's objectives. Management also provided an explanation for the lack of supporting documentation; specifically, Counterpart noted that the individuals who received the advance funding did not have the means to return support for the return travel (e.g., copies of boarding passes or receipts for transit costs) to Counterpart.

We have reviewed management's response and did not consider a revision to the finding to be appropriate due to additional documentation not having been provided to evidence how the funds were ultimately used or what the actual costs incurred for the participants' travel from the conference totaled. In the absence of such documentation, the general criterion for cost allowability identified in OMB Circular A-122, Section A.(2)(g), "Be adequately documented." does not appear to have been satisfied.

Finding 2016-02

Management disagreed with Crowe's recommendation that Counterpart either locate the required supporting documentation or reimburse the Government \$745. The disagreement was the result of TORAN's having ceased business operations such that it would not be possible to obtain the missing documentation. Secondly, Counterpart indicated that no funds are due to the Government because the amounts in question were recorded to the cost share. Lastly, management noted that it is confident that the organization could meet its required cost share through other non-U.S. Government sources.

Upon review of management's response, we concur that Counterpart still has time within the period of performance to identify additional non-Federally-funded costs that may be used to meet the cost share requirement. We also understand that TORAN is no longer in business such that obtaining additional support is not feasible. We have, therefore, updated the recommendation accordingly.

We have not, however, removed the recommendation pertaining to reimbursement of costs. While the costs may have been recorded to the cost share, the cost share amount is legally binding as per Section A.14 of the cooperative agreement. Therefore, should Counterpart fail to meet the requirement or otherwise not substitute the currently inadequately supported costs with adequately supported costs, Counterpart may be required to remit all or a portion of the amount to the U.S. Government.

PAGE INTENTIONALLY LEFT BLANK

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

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