

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 17-44 Financial Audit**

## USAID's Assistance in Building Afghanistan by Developing Enterprises: Audit of Costs Incurred by Volunteers for Economic Growth Alliance

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



MAY  
2017

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On October 16, 2012, the U.S. Agency for International Development (USAID) awarded a \$104,997,656 cooperative agreement to Volunteers for Economic Growth Alliance (VEGA) to support the Assistance in Building Afghanistan by Developing Enterprises (ABADE) program. The program's objectives were to work primarily with the private sector to strengthen the overall effectiveness of enterprises that offer the best opportunity for sustained growth and job creation. ABADE aimed to create jobs, increase domestic and foreign investment, and improve sales of domestic products. After seven modifications, the period of performance was extended from October 16, 2016, to April 15, 2017.

Mayer Hoffman McCann (MHM) reviewed \$30,895,654 in expenditures charged to the cooperative agreement from January 1, 2015, through December 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in VEGA'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 VEGA has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of VEGA's Special Purpose Financial Statement (SPFS). See MHM'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. We did not find any instances where MHM did not comply, in all material respects, with U.S. generally accepted government auditing standards.

May 2017

## USAID's Assistance in Building Afghanistan by Developing Enterprises: Audit of Costs Incurred by Volunteers for Economic Growth Alliance

SIGAR 17-44-FA

### WHAT THE AUDIT FOUND

MHM identified two internal control deficiencies and no instances of noncompliance with the terms and conditions of the cooperative agreement. The deficiencies resulted in two findings. Most notably, MHM found that VEGA incorrectly paid one employee's vacation time and misclassified travel costs as other direct costs on the SPFS.

As a result of these internal control deficiencies, MHM identified \$214 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations. MHM did not identify any unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Unallowed Vacation Pay	\$214	\$0	\$214
<b>Totals</b>	<b>\$214</b>	<b>\$0</b>	<b>\$214</b>

MHM identified four prior engagements with findings and recommendations that were within the scope of this audit. Eleven findings in those engagements were material to VEGA's SPFS. MHM determined that VEGA has corrected all previous findings except for one regarding unsupported payroll charges.

MHM issued an unmodified opinion on the fair presentation of VEGA's SPFS.

### 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, \$214 in questioned costs identified in the report.**
2. **Advise VEGA to address the report's two internal control findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

May 19, 2017

Mr. Wade Warren  
Acting Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith  
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann (MHM) to audit the costs incurred by Volunteers for Economic Growth Alliance (VEGA) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Assistance in Building Afghanistan by Developing Enterprises (ABADE) program.<sup>1</sup> MHM's audit covered \$30,895,654 in expenditures charged to the cooperative agreement from January 1, 2015, through December 31, 2015. 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, \$214 in questioned costs identified in the report.**
- 2. Advise VEGA to address the report's two internal control findings.**

The results of MHM's audit are in the attached report. We reviewed MHM'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 VEGA's Special Purpose Financial Statement. We also express no opinion on the effectiveness of VEGA's internal controls or compliance with contract laws and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in it. However, we did not find any instances where MHM 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-095)

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<sup>1</sup> USAID awarded cooperative agreement no. AID-306-LA-13-00001 to VEGA to implement ABAD. The program's objectives were to create jobs, increase domestic and foreign investment, and improve sales of domestic products.

## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
Assistance in Building Afghanistan by  
Developing Enterprises (ABADE) Program

For the Period January 1, 2015 through December 31, 2015

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

For the Period January 1, 2015 through December 31, 2015

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**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm

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May 5, 2017

Enclosed is the final report on the financial audit of costs incurred under Cooperative Agreement No. AID-306-LA-13-00001 ("Cooperative Agreement"), awarded by the United States Agency for International Development ("USAID") to Volunteers for Economic Growth Alliance. ("VEGA") for implementation of the Assistance in Building Afghanistan by Developing Enterprises ("ABADE") Program in Afghanistan. The audit covers the period January 1, 2015 through December 31, 2015.

The following items are included in the report:

- Summary
- Independent Auditor's Report on Special Purpose Financial Statement
- Special Purpose Financial Statement
- Notes to Special Purpose Financial Statement
- Notes to Questioned Costs Presented on Special Purpose Financial Statement
- Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Status of Prior Findings
- Detailed Audit Findings
- VEGA's Response to Detailed Audit Findings
- Auditor's Rebuttal to VEGA's Response to Findings

Sincerely,

Mayer Hoffman McCann P.C.

A handwritten signature in blue ink, appearing to read "Marcus D. Davis", is written over a horizontal line.

Marcus D. Davis, CPA  
Shareholder

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

## **Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-LA-13-00001 ABADE Program**

For the Period January 1, 2015 through December 31, 2015

### **Background**

On October 16, 2012, the United States Agency for International Development ("USAID") awarded Cooperative Agreement No. AID-306-LA-13-00001 ("Cooperative Agreement") to Volunteers for Economic Growth Alliance ("VEGA" or "Company"). The purpose of the agreement was to implement the Assistance in Building Afghanistan by Developing Enterprises ("ABADE") Program. The goal of the program is to support USAID/Afghanistan's efforts to increase domestic and foreign investment, stimulate employment, and improve sales of Afghan products. VEGA utilized one major subcontractor, International Executive Service Corps (IESC), to implement and monitor the ABADE Program. IESC was approved within the original Cooperative Agreement.

The Cooperative Agreement totaled \$104,997,655. The period of performance consisted of one base year plus four option years, with an initial obligated amount of \$17,610,000 funded through June 1, 2013. All four option years were exercised, which resulted in a period of performance from October 16, 2012 through October 16, 2016. The Cooperative Agreement was modified 7 times for reasons such as modifying clauses and approving obligated incremental funds to continue to support the program operations. Modification 7 extended the period of performance to April 15, 2017 and increased authorized funding to \$71,810,058.

The ABADE Program works principally with the private sector to strengthen the productivity of enterprises for sustained growth and job creation. ABADE's objectives are to increase domestic and foreign investment, stimulate employment and improve sales of Afghan products. It is designed to complement other USAID programs focused on improving the business enabling environment, workforce development, and access to finance.

VEGA, a U.S. company created by USAID is based in Washington D.C. The Company is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. VEGA brings together its 27 Member Non-Governmental Organizations ("NGOs") and their networks of more than 100,000 highly-skilled volunteers to partner with USAID to efficiently and effectively generate sustainable economic growth in the developing world.

### **Work Performed**

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of VEGA's ABADE Special Purpose Financial Statement ("SPFS") for the period January 1, 2015 through December 31, 2015.

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

For the Period January 1, 2015 through December 31, 2015

## **Objectives, Scope, and Methodology**

### **Objectives Defined by SIGAR**

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether VEGA's SPFS for the Cooperative Agreement 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.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of VEGA's internal control related to the Cooperative Agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether VEGA complied, in all material respects, with the Cooperative Agreement 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.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether VEGA 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 this audit included all costs incurred during the period January 1, 2015 through December 31, 2015 under the Cooperative Agreement. Our testing of indirect costs was limited to determining that the indirect costs were calculated using the correct final negotiated indirect cost rate or provisional indirect cost rate, as applicable for the given fiscal year, as approved by USAID.

### **Methodology**

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

#### **Entrance Conference**

An entrance conference was held via conference call on October 13, 2016. Participants included representatives of MHM, VEGA, IESC, SIGAR and USAID.



# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

## **Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-LA-13-00001 ABADE Program**

For the Period January 1, 2015 through December 31, 2015

### Planning

During our planning phase, we performed the following:

- Obtained an understanding of VEGA;
- Reviewed the Cooperative Agreement and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Cooperative Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appear to contain unallowable and restricted items according to the terms of the Cooperative Agreement, 2 CFR 200 and any other applicable regulations, we will test 100% of the transactions.
  - For high risk cost categories, we sampled individual transactions greater than \$154,000, not to exceed 50% of the total amount expended for each cost category.
  - For medium risk cost categories, we sampled individual transactions greater than \$309,000, not to exceed 20% of the total amount expended for each cost category.
  - For low risk cost categories, we individual sampled transactions greater than \$309,000, not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk categories.

If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

## **Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-LA-13-00001 ABADE Program**

For the Period January 1, 2015 through December 31, 2015

### **Internal Control Related to the SPFS**

We reviewed and evaluated VEGA's internal controls related to the Cooperative Agreement. This review and evaluation was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

### **Compliance with Cooperative Agreement Requirements and Applicable Laws and Regulations**

We reviewed the Cooperative Agreement, modifications, and major subcontractors and documented all compliance requirements that could have a direct and/or material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

### **Corrective Action on Prior Findings and Recommendations**

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

### **Special Purpose Financial Statements**

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Cooperative Agreement, modifications and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Cooperative Agreement and reasonable.

### **Exit Conference**

An exit conference was held on March 1, 2017 via conference call. Participants included MHM, VEGA, IESC, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

### **Summary of Results**

Our audit of the costs incurred by VEGA under the Cooperative Agreement with USAID identified the following audit results. Findings are classified as either internal control, compliance or a combination of internal control and compliance.

## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

### **Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-LA-13-00001 ABADE Program**

For the Period January 1, 2015 through December 31, 2015

#### **Auditor's Opinion on SPFS**

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We also identified \$214 of questioned costs under the Cooperative Agreement. A summary of findings and questioned costs is as follows:

#### **Summary of Findings and Questioned Costs**

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Matter</b>	<b>Questioned Costs</b>	<b>Total Cumulative Questioned Cost</b>
2017-1	Internal control – deficiency	Overcharged vacation pay	\$214	\$214
2017-2	Internal control – deficiency	Misclassified expenses	\$0	\$214

#### **Internal Control Findings**

Our audit discovered two internal control findings, which are classified as deficiencies. See Independent Auditor's Report on Internal Control on page 15. The complete management responses from VEGA to each of the internal control findings can be found in Appendix A to this report.

#### **Compliance Findings**

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Cooperative Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed no instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 17.

#### **Review of Prior Findings and Recommendations**

We requested copies of prior engagements including audits, reviews and evaluations pertinent to VEGA's activities under the program. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were four prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified 11 findings with a potential material effect on the SPFS and/or control deficiencies effect on the Cooperative Agreement. Based on our review, adequate corrective actions were implemented on 10 of the 11 prior findings (See USAID Office of Inspector General's ("OIG's") Audit

## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

For the Period January 1, 2015 through December 31, 2015

Report No. F-306-16-002-P, Audit of ABADE Program on page 21 for a summary of the prior finding not corrected). See the Status of Prior Findings on page 19 for a detailed description of the prior findings and recommendations.

### **Summary of VEGA's Responses to Findings**

The following represents a summary of the responses provided by VEGA to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

- Finding Number 2017-1: VEGA disagrees with this finding indicating that it has now charged the employee's vacation bank for the hours in question, thus removing the need for questioned personnel costs and associated fringe benefits and indirect charges. VEGA also disagrees with the application of the fringe benefit rate indicating that the employee is a Cooperating County National (CCN) and fringe benefits are charged at actual as opposed to a rate. VEGA indicated that since it reduced the employee's vacation bank, then IESC's government/admin rate and VEGA's general and administrative ("G&A") rate should not be applied.
- Finding Number 2017-2: VEGA agrees with this finding indicating that travel costs were misclassified as other direct costs.



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

Board of Directors  
Volunteers for Economic Growth Alliance  
Washington, D.C.

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

We have audited the accompanying Special Purpose Financial Statement of Volunteers for Economic Growth Alliance ("VEGA") under Cooperative Agreement No. AID-306-LA-13-00001 ("Cooperative Agreement"), with the United States Agency for International Development ("USAID") to support the Assistance in Building Afghanistan By Developing Enterprises ("ABADE") Program for the period January 1, 2015 through December 31, 2015, and the related notes to the Special Purpose Financial Statement.

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

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are 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 the standards applicable to financial audits contained in *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial 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 Special Purpose Financial 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 Special Purpose Financial Statement.

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

### ***Opinion***

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by VEGA under the Cooperative Agreement for the period January 1, 2015 through December 31, 2015 in accordance with the basis of accounting described in Note 2.

### ***Restriction on Use***

This report is intended for the information of Volunteers for Economic Growth Alliance, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 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.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 5, 2017 on our consideration of VEGA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 VEGA's internal control over financial reporting and compliance.



Irvine, California  
May 5, 2017

**VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE (VEGA)**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

## Special Purpose Financial Statement

January 1, 2015 through December 31, 2015

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-306-LA-13-00001	\$ 104,997,655	\$ 30,895,654	\$ -	\$ -	\$ -	(3)
Total revenues	104,997,655	30,895,654	-	-	-	
Expenditures:						
IESC:						
Personnel			122	-	122	(A)
Fringe benefits			35	-	35	(B)
Travel and transportation	1,862,286	300,681	-	8,830	8,830	(C)
Equipment	82,000	-	-	-	-	
Supplies	434,201	(45,688)	-	-	-	
Subcontract/subgrant	63,305,606	18,857,109	-	-	-	
Other direct costs	7,794,181	2,879,572	-	(8,830)	(8,830)	(D)
Indirect charges			47	-	47	(E)
Total IESC Expenditures			204	-	204	
VEGA indirect costs			10	-	10	(5),(F)
Total costs incurred	104,997,655	30,895,654	214	-	214	
Outstanding fund balance	\$ -	\$ -	\$ (214)	\$ -	\$ (214)	(6),(G)

See Notes to Special Purpose Financial Statement  
and Notes to Questions Costs Presented on Special Purpose Financial Statement

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

## **Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-LA-13-00001 ABADE Program**

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

**For the Period January 1, 2015 through December 31, 2015**

#### **(1) Background**

On October 16, 2012, the United States Agency for International Development (“USAID”) awarded Cooperative Agreement No. AID-306-LA-13-00001 (“Cooperative Agreement”) to Volunteers for Economic Growth Alliance (“VEGA”) for implementation of the Assistance in Building Afghanistan by Developing Enterprises (“ABADE”) Program to support USAID/Afghanistan’s efforts to increase domestic and foreign investment, stimulate employment, and improve sales of Afghan products. Vega utilized one major subcontractor, International Executive Service Corps (IESC), to implement and monitor the ABADE Program. IESC was approved within the original Cooperative Agreement.

The Cooperative Agreement was in the original amount of \$104,997,655. The original period of performance consisted of one base year plus four option years, with an initial obligated amount of \$17,610,000 funded through June 1, 2013. All four option years were exercised, which resulted in a full period of performance of October 16, 2012 through October 16, 2016. The Cooperative Agreement was modified 7 times for reasons such as modifying clauses and approving obligated incremental funds to continue to support the program operations. Modification 7 extended the period of performance to April 15, 2017 and total authorized funding was increased to \$71,810,058.

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

##### **Basis of Presentation**

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for the ABADE Program under the Cooperative Agreement for the period January 1, 2015 through December 31, 2015. Because the SPFS presents only a selected portion of the operations of VEGA, it is not intended to and does not present the financial position, changes in financial position, or cash flows of VEGA. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (“SIGAR”), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Cooperative Agreement.

##### **Basis of Accounting**

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart E, *Cost Principles*.

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<sup>1</sup> The Notes to Special Purpose Financial Statement are the responsibility of CCCI.



# VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Notes to Special Purpose Financial Statement

(Continued)

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

### Currency

All amounts presented are shown in U.S. dollars, the reporting currency of VEGA. VEGA converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by using the current exchange rate obtained from the local Afghan bank.

### Budget

The budget categories presented and associated amounts reflect the budget line items included within the final, USAID-approved Cooperative Agreement budget. The budget represents the entire budget for the Cooperative Agreement. There was no specific budget for the period January 1, 2015 through December 31, 2015.

## (3) Revenue

As of June 30, 2016, VEGA has reported \$30,895,654 in revenue. This revenue equals the expenditures drawdown by VEGA from USAID for the period January 1, 2015 through December 31, 2015.

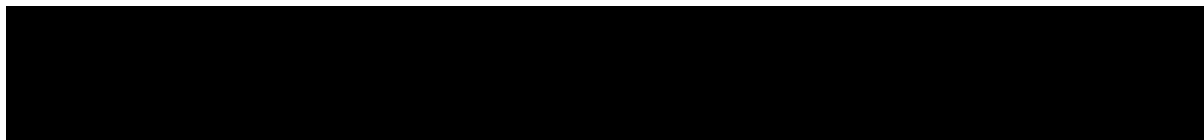
## (4) Indirect Charges

IESC's most recent negotiated indirect cost rates were approved by USAID on November 7, 2014, and the indirect cost rates applicable for the period January 1, 2015 through December 31, 2015 were as follows:

<u>Type</u>	<u>Effective Period</u>		<u>Indirect Cost Rates</u>		
	<u>From</u>	<u>Through</u>	<u>Fringe Benefits (a)</u>	<u>Facilities (b)</u>	<u>Government/ Admin (c)</u>
Provisional	1/1/14	Until Amended	████████	████████	████████

The basis of allocation for the indirect costs is as follows:

- (a)
- (b)
- (c)



## VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Notes to Special Purpose Financial Statement

(Continued)

### (5) VEGA Indirect Costs

VEGA's most recent negotiated indirect cost rates were approved by USAID on November 1, 2016, and the indirect cost rates applicable for the period January 1, 2015 through December 31, 2015 were as follows:

<u>Type</u>	<u>Effective Period</u>		<u>Indirect Cost Rates</u>	
	<u>From</u>	<u>Through</u>	<u>Fringe (a)</u>	<u>G&amp;A (b)</u>
Final	1/1/15	12/31/15	██████	██████

The basis of allocation for the indirect costs is as follows:

(d)  
(e)



### (6) Outstanding Fund Balance

As of December 31, 2015, there was no outstanding fund balance under the Cooperative Agreement as the SPFS is prepared under the accrual basis of accounting described in Note 2.

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

## **Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-LA-13-00001 ABADE Program**

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

**For the Period January 1, 2015 through December 31, 2015**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Cooperative Agreement and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review.

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

VEGA reported IESC personnel costs in the amount of [REDACTED] for the period January 1, 2015 through December 31, 2015. During our audit of these costs, we noted one instance in which vacation time in the amount of \$122 was paid even though the time was requested as leave without pay. See Finding 2017-1. Also see Notes B, E and F for the associated fringe benefits, government/admin and G&A costs.

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

VEGA reported IESC fringe benefits in the amount of [REDACTED] for the period July 1, 2015 through December 31, 2015. The IESC fringe benefit rate of [REDACTED] approved by USAID on November 7, 2014 was applied to the associated questioned costs identified in Note A, resulting in questioned fringe benefits in the amount of \$35.

#### **(C) Travel and Transportation**

VEGA reported IESC travel and transportation costs in the amount of \$300,681 for the period January 1, 2015 through December 31, 2015. During our audit of these costs, as described in Note D, VEGA misclassified \$8,830 of travel and transportation costs as other direct costs.

#### **(D) Other Direct Costs**

VEGA reported IESC other direct costs in the amount of \$2,879,572 for the period January 1, 2015 through December 31, 2015. During our audit of these costs, we identified \$8,830 of travel and transportation costs that were misclassified as other direct costs. See Finding 2017-2.

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

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

**(E) Indirect Charges**

VEGA reported IESC indirect charges in the amount of [REDACTED] for the period July 1, 2015 through December 31, 2015. The IESC government/admin rate of [REDACTED] approved by USAID on November 7, 2014 was applied to the associated questioned costs identified in Notes A and B, resulting in questioned indirect charges in the amount of \$47.

**(F) VEGA Indirect Costs**

VEGA reported VEGA indirect costs in the amount of [REDACTED] for the period January 1, 2015 through December 31, 2015. The VEGA G&A rate of [REDACTED] approved by USAID on November 1, 2016 was applied to the associated questioned costs identified in Notes A, B and E, resulting in questioned VEGA indirect costs in the amount of \$10.

**(G) Outstanding Fund Balance**

The total outstanding fund balance as of December 31, 2015 in the amount of \$214 represents the total questioned costs, consisting of \$214 of ineligible costs.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Volunteers for Economic Growth Alliance  
Washington, D.C.

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 of Volunteers for Economic Growth Alliance ("VEGA") representing revenues received and costs incurred under Cooperative Agreement No. AID-306-LA-13-0001 ("Cooperative Agreement"), with the United States Agency for International Development ("USAID") to support the Assistance in Building Afghanistan by Developing Enterprises ("ABADE") Program for the period January 1, 2015 through December 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 5, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the Special Purpose Financial Statement, we considered VEGA's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of VEGA's internal control. Accordingly, we do not express an opinion on the effectiveness of VEGA'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Detailed Audit Findings as Findings 2017-1 and 2017-2 that we consider to be deficiencies.

### **VEGA's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of VEGA'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.

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

A handwritten signature in blue ink, appearing to read "Mayer Hoffmann".

Irvine, California  
May 5, 2017



**REPORT ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Volunteers for Economic Growth Alliance  
Washington, D.C.

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 of Volunteers for Economic Growth Alliance ("VEGA"), representing revenues received and costs incurred under Cooperative Agreement No. AID-306-LA-13-00001 ("Cooperative Agreement"), with the United States Agency for International Development ("USAID") to support the Assistance in Building Afghanistan by Developing Enterprises ("ABADE") Program for the period January 1, 2015 through December 31, 2015, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 5, 2017.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether VEGA's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Cooperative Agreement, noncompliance with which could have a direct and material effect on the determination of Special Purpose 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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 internal control. Accordingly, this communication is not suitable for any other purpose.

Board of Directors  
Volunteers for Economic Growth Alliance  
Washington, D.C.

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

*Maya Hoffman M. C. P.*

Irvine, California  
May 5, 2017



## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

### **Status of Prior Findings**

For the Period January 1, 2015 through December 31, 2015

We requested copies of prior engagements including audits, reviews and evaluations pertinent to VEGA's activities under the program. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were four prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified 11 findings with a potential material effect on the SPFS and/or control deficiencies effect on the Cooperative Agreement. Based on our review, adequate corrective actions were implemented on 10 of the 11 prior findings.

### **VEGA Audited Financial Statements and Single Audit in Accordance with Office of Management and Budget ("OMB") Circular A-133 for the Year Ended December 31, 2014**

The audit identified one finding and recommendation related to not properly identifying a subrecipient as a non-profit organization that was subject to OMB A-133 requirements. For the ABADE Program, VEGA utilized one major subcontractor, IESC, a non-profit organization. IESC had a single audit performed of its federal awards. As such, the corrective action has been adequately implemented.

### **USAID OIG's Audit Report No. F-306-16-006-N, Audit of Costs Incurred under ABADE and Capacity Building and Change Management Program II (CBCMP II)**

There were three findings and recommendations identified in USAID OIG's Audit Report No. F-306-16-006-N, which was performed by Davis and Associates Certified Public Accountants, PLLC. The period covered by the audit was January 1, 2014 through December 31, 2014. Based upon our review, adequate corrective action was taken on all three findings and recommendations as described below.

- (1) The auditors noted that one of IESC's subrecipients incorrectly applied overhead rates to consultancy fees. Our testing of costs charged to the subcontract/subgrant cost category noted that indirect costs were correctly applied. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that VEGA did not use full and open competition for procuring lodging services. Our testing of procurement indicated that VEGA followed proper procurement procedures without exception. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that VEGA did not withhold taxes on payments to vendors as required. Our testing of costs charged to the subcontract/subgrant cost category noted that taxes were withheld from vendors as required. As such, the corrective action has been adequately implemented.

## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Status of Prior Findings

(Continued)

### **SIGAR Financial Audit of Cost Incurred No. 13-6, United States Department of Agriculture's ("USDA's") Program to Help Advance the Revitalization of Afghanistan's Agricultural Sector**

There were seven prior findings and recommendations identified in SIGAR's 13-6 financial audit performed by Mayer Hoffman McCann P.C., six of which are material to the SPFS. The period covered by the audit was November 24, 2010 through December 31, 2012. Based upon our review, adequate corrective action was taken on all six findings and recommendations as described below.

- (1) The auditors noted that employees recorded time based on estimates, timesheets were not signed by employees or pre-scanned onto timesheets, and timesheets lacked a supervisor's approval. Our review of personnel costs noted that timesheets were used, time was recorded based upon actual time worked, and timesheets were signed by employees and supervisors. As such, the corrective action has been adequately implemented.
- (2) The auditors noted a lack of adherence to procurement procedures for costs claimed in travel, supplies, equipment, subcontracts, and other direct costs. Our testing of procurement indicated that VEGA followed proper procurement procedures without exception. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that the Accountant prepared the monthly bank reconciliation, received the bank statements directly and also had access to cash receipts and cash disbursements, which evidenced a lack of proper segregation of duties. In addition, there was no supervisory review of the bank reconciliation. Our review of internal controls noted that duties over cash receipts and disbursements were adequately segregated, and that a supervisor reviewed the bank reconciliation. As such, the corrective action has been adequately implemented.
- (4) The auditors noted that excluded parties check for subcontractors was not performed. Our testing of costs charged to the subcontracts/subgrants cost category noted that excluded parties checks were performed without exception. As such, the corrective action has been adequately implemented.
- (5) The auditors noted that subrecipient monitoring was not documented. VEGA has one major subcontractor, IESC, under the ABADE Program and our testing noted that VEGA monitors IESC. As such, the corrective action has been adequately implemented.
- (6) The auditors noted that an unallowable cost was included in the indirect cost pool. During our testing of indirect costs, we noted that VEGA applied the USAID approved indirect cost rate as appropriate. As such, the corrective action has been adequately implemented.

## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Status of Prior Findings

(Continued)

### **USAID OIG's Audit Report No. F-306-16-002-P, Audit of ABADE Program**

The USAID OIG performed a program audit of the ABADE Program and issued its report on March 14, 2016. The audit covered the period from October 16, 2012 through March 31, 2015. There were 12 findings and recommendations noted, one of which was material to the SPFS. The OIG noted that one of the subcontractors incurred payroll costs which were not supported. During our testing of personnel costs, we noted one instance in which vacation pay was incurred, but the leave was requested as being without pay. As such, the correction action for this finding has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings section of this report.

# **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Detailed Audit Findings

For the Period January 1, 2015 through December 31, 2015

## **Finding Number 2017-1: Overcharged Vacation Time**

### **Nature of Finding:**

Internal control – deficiency

### **Condition:**

Of the 588 employee timesheets tested, 1 timesheet indicated an employee was paid for 8 hours of vacation time. However, the ABADE Leave Request Form indicated this time off was to be unpaid leave. As a result, vacation time in the amount of \$122 was overcharged to the Cooperative Agreement. A similar condition was previously reported in USAID OIG's Audit Report No. F-306-16-002-P, Audit of ABADE Program for the period October 16, 2012 through March 31, 2015.

### **Criteria:**

ABADE Finance Manual August 2015, *Timesheets*, states in part:

"The timesheet is the basis for calculating salary payments. It is also a legal document required to document cash disbursements for auditing purposes...For planned leave, employees must fill out the Request for Leave Form located in TAMIS and have their supervisor approve and sign. Approved request for leave should be submitted to the supervisor together with the monthly timesheet."

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

"...costs must meet the following general criteria in order to be allowable under Federal awards:

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

(g) Be adequately documented..."

### **Cause:**

IESC miscalculated the amount of reimbursement due to the employee due to human error. This condition has not yet been corrected as previously reported in USAID OIG's Audit Report No. F-306-16-002-P, Audit of ABADE Program for the period October 16, 2012 through March 31, 2015.

## VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Detailed Audit Findings

(Continued)

### Effect:

Weaknesses in internal controls over the accuracy of billing could permit additional errors to go unnoticed and the government to be overcharged.

### Questioned Costs:

Total questioned personnel costs, including IESC's associated fringe benefits and government/admin and VEGA's associated G&A, is as follows:

	<u>Questioned Costs</u>
Personnel costs	\$122
IESC fringe benefits [REDACTED]	35
IESC government/admin [REDACTED]	47
VEGA G&A [REDACTED]	<u>10</u>
Total questioned costs	<u>\$214</u>

### Recommendation:

- (1) We recommend that VEGA return \$214 to USAID for excess personnel costs charged to the Cooperative Agreement.
- (2) We recommend that IESC increase its supervision or oversight of the payroll process to ensure that that amounts paid are accurate and based upon the timesheets and leave requests.

# VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Detailed Audit Findings

(Continued)

## **Finding Number 2017-2: Misclassified expenses**

### **Nature of Finding:**

Internal Control – deficiency

### **Condition:**

IESC misclassified \$8,830 for airline tickets as other direct costs. These costs should have been reported as travel and transportation costs.

### **Criteria:**

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

“The non-Federal entity must:

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

GAO, *Standards for Internal Control in the Federal Government (GAO-14-704G)*, Principle 16, *Perform Monitoring Activities*, Attribute 16.05, states, in part:

“Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions...”

### **Cause:**

This condition occurred due to a lack of adequate management oversight over the recording and posting of transactions.

### **Effect:**

The inaccurate classification of expenses can result in the inaccurate reporting of costs by cost category, which can undermine the budgetary controls in place per the Cooperative Agreement.

## **VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Detailed Audit Findings

(Continued)

### **Questioned Costs:**

No costs were questioned as a result of this finding as the costs were properly supported, allowable and allocable to the Cooperative Agreement.

### **Recommendation:**

We recommend that IESC modify its policies and procedures and provide training to management regarding what is required to be looked at to ensure transactions are properly coded and reported in the correct cost category.



April 10, 2017

Mayer Hoffman McCann P.C.  
2301 Dupont Drive, Suite 200  
Irvine CA 92612

RE: Special Inspector General for Afghanistan Reconstruction Financial Audit of Cost Incurred by Volunteers for Economic Growth Alliance under Cooperative Agreement No. AID-306-LA-13-00001, Assistance in Building Afghanistan by Developing Enterprises (ABADE) for the period of January 1 to December 31, 2015

Dear Sirs,

The Volunteers for Economic Growth Alliance (VEGA) and its lead implementor International Executive Service Corps (IESC) appreciate the opportunity to address the question cost finding of US\$ 214 for the Cooperative Agreement No. AID-306-LA-13-00001, Assistance in Building Afghanistan by Developing Enterprises (ABADE) Program of expenses for the period of January 1 to December 31, 2015 prepared by Mayer Hoffman McCann P.C.

Item of Questioned Cost:

**(A) Under the Personnel Section there was one instance in which vacation time in the amount of US\$122 was paid even though the time was requested to be time without pay.**

*IESC response:*

*IESC has reduced the employee's accrued vacation balance to reflect the hours that we actually paid to the employee. This result of this action would result in zero over charging of the program to the US Government.*

**(B) Under the Fringe Benefits section the reported associated fringe benefits associated with this transaction resulted in questioned costs of US\$35.**

*IESC Response:*

*IESC does not apply its Fringe Rate to cooperating country national wages, rather IESC charges actual fringe benefits costs incurred by each cooperating country national employee on the program. Therefore the US Government was not charged fringe benefits via the fringe rate as stated above.*

**(C) Under the Travel and Transportation section there is US\$8,830 that is being reclassified from Other Direct Costs to Travel**

*IESC Response:*

*IESC does not contest this assertion*

**(D) Under the Other Direct Costs section there is US\$8,830 that is being reclassified to Travel and Transportation**

*IESC Response:*



*IESC does not contest this assertion*

**(E) Under the Indirect Costs section the calculated indirect costs from the above questioned costs equals US\$47.**

*IESC Response:*

*IESC contends the remedy stated above would eliminate the required application of the government/admin rate of [REDACTED]%. Therefore the amount of indirect costs applied to the direct costs noted above would be zero.*

Going forward, IESC has implemented that IESC Field HR Staff will perform a second review to ensure that the payroll statement is corresponding to the timesheet.

**(F) VEGA Indirect Cost in the amount of US\$10**

*VEGA Response:*

*Under the above remedy action stated above, the result would be there is zero money return to the government*

Sincerely,

  
Long T. Nguyen  
Managing Director, Finance & Administration  
Volunteers for Economic Growth Alliance  
734 15<sup>th</sup> Street, NW Suite 1100  
Washington DC 20005  
Email – [Lnguyen@VEGAAlliance.org](mailto:Lnguyen@VEGAAlliance.org)  
Phone – 202 367 9992 (Direct)

**VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. AID-306-LA-13-00001  
ABADE Program

Auditor's Rebuttal to VEGA's Responses to Findings

For the Period January 1, 2015 through December 31, 2015

VEGA agreed with 1 of the 2 findings identified. VEGA disagreed with Finding 2017-1. We have reviewed management's responses and provide the following rebuttal to the finding to which VEGA disagreed.

**Finding Number 2017-1: Overcharged Vacation Time**

VEGA disagrees with this finding indicating that subsequent to the audit fieldwork, IESC reduced the employee's vacation bank to support the hours actually paid to the employee. VEGA and IESC indicate with this reduction in the leave bank, there should be no questioned personnel costs, nor associated questioned fringe benefits and indirect charges. IESC's fringe benefit rate is [REDACTED] of personnel costs. VEGA indicated that the employee was a Cooperating Country National (CCN) and thus not charged a fringe benefit rate. In addition to fringe benefits, IESC has a government/admin overhead rate of [REDACTED] of direct cost, and VEGA has a G&A rate of [REDACTED] of direct cost.

We inquired of VEGA what the actual fringe benefits were that were charged and it indicated that no fringe benefits were charged, but provided no documentation to support this claim. The employee had requested the time off and completed a leave request indicating that the leave should be unpaid leave. Based upon this source document, VEGA should not have paid the employee nor charged the Cooperative Agreement for these hours.

Reducing the vacation bank does not correct the fact that the Cooperative Agreement was incorrectly charged. As such, our finding and recommendation remains unchanged.

## SIGAR's Mission

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

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

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## 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](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto: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
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## Public Affairs

Public Affairs Officer

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