

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 19-19 Financial Audit

USAID's Afghanistan Agriculture Extension Project-II: Audit Costs Incurred by University of California, Davis



FEBRUARY
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On November 13, 2014, USAID awarded the University of California, Davis (UC Davis) a 3-year, \$19,814,702 cooperative agreement to support the Afghanistan Agriculture Extension Project–II (AAEP-II). The project’s objective was to increase the capacity of Afghanistan’s Ministry of Agriculture, Irrigation, and Livestock. UC Davis worked with four other universities on the project to direct and promote agricultural, environmental, and social sustainability through research, teaching, and public engagement. USAID modified the cooperative agreement 10 times, increasing the obligated amount for the project to \$20,229,770 and shortening the period of performance by 2 months from September 30, 2017, to July 31, 2017.

SIGAR’s financial audit, performed by Crowe LLP (Crowe), reviewed \$16,608,074 in costs incurred on the cooperative agreement from July 1, 2015, through July 31, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in UC Davis’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 UC Davis has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of UC Davis’s Special Purpose Financial Statement (SPFS). 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.

February 2019

USAID’s Afghanistan Agriculture Extension Project–II: Audit of Costs Incurred by University of California, Davis

SIGAR 19-19-FA

WHAT THE AUDIT FOUND

Crowe identified three material weaknesses and one significant deficiency in UC Davis’s internal controls, and three instances of noncompliance with the terms and conditions of the cooperative agreement. For example, Crowe found that UC Davis did not use consistent foreign currency conversion rates for its vendor transactions. Crowe also found that invoices from two of the universities did not include sufficient information to support their payment. During audit fieldwork, UC Davis did not provide additional supporting documentation for the invoices, but then did while preparing its response to Crowe’s draft audit report. Crowe determined that the documentation the university gave was sufficient support for the invoice payments and removed those questioned costs from the final report.

Because of the internal control deficiencies and instances of noncompliance, Crowe identified \$8,590 in total questioned costs consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Inadequate Oversight of Foreign Currency Conversion Transactions	\$0	\$8,590	\$8,590
Totals	\$0	\$8,590	\$8,590

Crowe reviewed one prior audit of costs incurred on the AAEP–II project and did not identify any findings that required corrective action.

Crowe issued an unmodified opinion on UC Davis’s SPFS, finding that the statement presents fairly, in all material respects, revenues earned, costs incurred, and the balance for the indicated period under the cooperative agreement.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$8,590 in questioned costs identified in the report.**
2. **Advise UC Davis to address the report’s four internal control findings.**
3. **Advise UC Davis to address the report’s three noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

February 19, 2019

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by the University of California, Davis (UC Davis) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Afghanistan Agriculture Extension Project–II (AAEP-II).¹ The project’s objective was to increase the capacity of Afghanistan’s Ministry of Agriculture, Irrigation, and Livestock. UC Davis worked with four other universities on the project to direct and promote agricultural, environmental, and social sustainability through research, teaching, and public engagement. Crowe’s audit covered \$16,608,074 in costs incurred on the cooperative agreement between July 1, 2015, and July 31, 2017. Our contract with Crowe required that the audit be performed in accordance with generally accepted government audit standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$8,590 in total questioned costs identified in the report.**
- 2. Advise UC Davis to address the report’s four internal control findings.**
- 3. Advise UC Davis to address the report’s three noncompliance findings.**

The results of Crowe’s audit are discussed in detail 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 UC Davis’s Special Purpose Financial Statement. We also express no opinion on the effectiveness of UC Davis’s internal control or compliance with the cooperative agreement, laws, and regulations. Crowe is responsible for the attached auditor’s report and conclusions expressed in it. 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.

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-122)

¹ The agreement number is AID-306-A-15-00001.



**UC DAVIS
AFGHANISTAN AGRICULTURE EXTENSION PROJECT - II
SPECIAL PURPOSE FINANCIAL STATEMENT
COOPERATIVE AGREEMENT NUMBER AID-306-A-15-00001**

For the period July 1, 2015 through July 31, 2017
(With Independent Auditor's Report Thereon)

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January 31, 2019

To the Chancellor of UC Davis
One Shields Avenue
Davis, California 95616To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of University of California, Davis (UC Davis) Agreement with the Office of the Special Inspector General for Afghanistan Reconstruction funding the Afghanistan Agriculture Extension Project – II (AAEP-II).

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 UC Davis, and the Office of the Special Inspector General for Afghanistan Reconstruction, provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's final written responses to the findings have been incorporated as an appendix to this report and are followed by the auditor's rebuttal.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of UC Davis' contract task order.

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

On November 13, 2014 USAID executed a Cooperative Agreement (“Agreement”) AID-306-A-15-00001, which was awarded to The University of California, Davis (UC Davis).

The Agreement’s purpose was to support the Afghanistan Agriculture Extension Project – II (AAEP-II) which is the second phase of an effort intended to build the extension capacity of Afghanistan’s Ministry of Agriculture, Irrigation and Livestock (MAIL). AAEP-II’s focus was on demand-driven extension services, including farm visits by extension officers to raise yields and lower crop losses. AAEP-II also continued working with the Directorates of Extension and Research in Kabul and the Directorate of Agriculture, Irrigation and Livestock (DAIL) branches to facilitate coordination and collaboration for MAIL/DAIL extension-service delivery.

Under the Agreement, UC Davis’ College of Agriculture and Environmental Sciences worked with four subrecipients to direct and promote agricultural, environmental, and social sustainability through research, teaching, and public engagement. Subrecipient universities include Purdue University, Washington State University, Texas A&M University, and Maryland University.

The initial award’s period of performance ran from October 1, 2014, through September 30, 2017. The award’s total estimated amount was \$19,814,702. Through ten subsequent modifications, the award’s value was increased to \$20,229,770, and the period of performance was shortened to July 31, 2017.

Work Performed

Crowe LLP (Crowe) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by UC Davis under cooperative agreement number AID-306-A-15-00001 (the Agreement), and associated modifications as indicated in a Special Purpose Financial Statement (SPFS) for the period July 1, 2015, through July 31, 2017.

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 UC Davis’ Special Purpose Financial Statement for the 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 Agreement and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of UC Davis’ internal control related to the Agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether UC Davis complied, in all material respects, with Agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Agreement 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 UC Davis 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 July 1, 2015 through July 31, 2017, and included costs incurred of \$16,608,074 during this time period. The audit was limited to those matters and procedures pertinent to the Agreement that have a direct and material effect on the Special Purpose Financial Statement (SPFS). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, 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;
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 and budget; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2, internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that did not exist in written format to provide Crowe with an understanding of the system of internal control established by UC Davis. 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 the internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 required that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the Agreement. Crowe identified – through review and evaluation of the Agreement and UC Davis, 22 CFR Part 226 - Administration of Assistance Awards to U.S. Non-Governmental Organizations, OMB Circular A21 - Cost Principles for Institutions of Higher Education, and the Agency for International Development Acquisition Regulation – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, payment requests submitted to the Government for payment, procurements, and reports for testing. Supporting documentation was provided by UC Davis and subsequently evaluated by Crowe to assess compliance with the applicable laws and regulations. Testing of indirect costs was limited to determining whether, for the vouchers submitted for reimbursement to the government, the correct rates were used and applied against the correct base for the amounts calculated in accordance with indirect cost rates approved by the United States Department of Health and Human Services. Crowe also evaluated whether adjustments to billings based on preliminary or proposed rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of UC Davis, SIGAR, and USAID, and performed a review of prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We obtained and reviewed three (3) audit reports under which the agreement was included in the scope. See report information below:

- Audit Report No. 8-306-17-006-N, Performed by EY, *Financial audit of the schedule of costs incurred in Afghanistan by University of California, under Afghanistan Agriculture Extension Project II (AAEP - II)(the Program), Associate Cooperative Agreement no. AID-306-A-15-00001, for the period from October 01, 2014 to June 30, 2015*
- *Report on Financial Statements and Expenditures of Federal Awards in Accordance with the Uniform Guidance for the year ended June 30, 2017*, Performed by PWC
- *Report on Financial Statements and Expenditures of Federal Awards in Accordance with OMB Uniform Guidance for the year ended June 30, 2016*, Performed by PWC

When we reviewed the above reports, we determined that it would be appropriate to apply procedures to determine if the respective conditions noted, existed relevant to the USAID Cooperative agreement under the scope of the Task Order described above.

Summary of Results

Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

Upon completion of Crowe's procedures, Crowe identified four findings because they met one or of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the Cooperative Agreement; and/or (4) questioned costs resulted from identified instances of noncompliance. Other matters that did not meet the criteria were communicated verbally to UC Davis.

Crowe identified certain instances of noncompliance on the report of compliance with legal and regulatory requirements. The results of procedures performed indicate the following:

- UC Davis did not obtain adequate underlying information to determine if foreign currency transactions were paid in the correct amount resulting in overpayments to vendors.
- Management at UC Davis did not obtain adequate supporting documentation for certain expenditures, at the time of payment.
- UC Davis was unable to provide evidence of timely submission of certain required reports, during the course of audit fieldwork.
- UC Davis did not perform sufficient monitoring of the fiscal activity of subrecipients use of funding from the Cooperative Agreement. Additionally, UC Davis did not maintain evidence of programmatic monitoring during the award.

We include a report on UC Davis' internal controls over financial reporting and a report on compliance. We identified three (3) material weaknesses in internal control (with questioned costs), and three (3) instances of noncompliance, and one (1) significant deficiency in internal control, which are included in our report. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

Based on Crowe's procedures, a total of \$8,590 in costs reported on the SPFS were questioned because they were either unsupported or not properly valued. Unsupported costs were originally questioned because UC Davis management did not exercise sufficient oversight of the respective subrecipients to determine if costs incurred were compliant with allowability and cost principles requirements, prior to expending funds to subrecipients. Additionally, UC Davis did not have sufficient oversight of vendor payments for expenditures to vendors in a foreign currency.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to UC Davis' financial performance under the Cooperative Agreement. Crowe did not identify any 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.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs
2018-01	Financial Reporting and Compliance - Cost Principles, Foreign Currency Translation	\$8,590
2018-02	Internal Control over Compliance - Reporting	None
2018-03	Federal Compliance - Cost Principles	None
2018-04	Federal Compliance- Subrecipient Monitoring	None
Total Questioned Costs		\$8,590

Summary of Management Comments

UC Davis Management provided responses to each finding in a letter dated January 9, 2019. The responses appear in Appendix A of this report. Management partially agreed with Findings 2018-01 and 2018-02. Management disagreed with findings 2018-03 and 2018-04. Management agreed with the facts of finding 2018-1 but did not agree that the questioned costs should be paid back to the government because they contended that the foreign currency calculations were reasonable. Management agreed that they did not provide evidence of the timely filing of reports, however, management was able to provide documentation to Crowe on January 9, 2019 to document the timely filing. Management disagreed with findings 2018-03 and 2018-04 as they felt that the procedures performed to approve subrecipient invoices and to monitor subrecipients were adequate.

References to Appendices

The auditor's reports are supplemented by two appendices: **Appendix A**, which contains management's responses to the audit findings, and **Appendix B**, which contains the auditor's rebuttal.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Chancellor of UC Davis
One Shields Avenue
Davis, California 95616

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 University of California, Davis (UC Davis), and related notes to the Statement, with respect to building on the innovations of Afghan farmers, and promoting coordination among various entities providing extension-related services, for the period July 1, 2015, through July 31, 2017. The Cooperative Agreement ("the Agreement") is funded by cooperative agreement number AID-306-A-15-00001.

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). 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 Special Purpose Financial Statement referred to above presents fairly, in all material respects, the revenues, costs incurred, and remaining balance of the federal funds from Cooperative Agreement with UC Davis, for the period July 1, 2015, through July 31, 2017, accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction and 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 UC Davis in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Cooperative Agreement number AID-306-A-15-00001, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of UC Davis, 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 January 31, 2019, on our consideration of UC Davis' 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 UC Davis' internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

January 31, 2019
Washington, D.C.

UNIVERSITY OF CALIFORNIA, DAVIS
SPECIAL PURPOSE FINANCIAL STATEMENT
COOPERATIVE AGREEMENT NO. AID-306-A-15-00001
For the Period July 1, 2015 through July 31, 2017

	<u>Budget</u>	<u>Actual</u>	Questioned Costs		Notes
			<u>Ineligible</u>	<u>Unsupported</u>	
Revenues					
Cooperative Agreement No. AID-306-A-15-00001	\$ 20,229,770	\$ 16,608,074	\$ -	\$ -	4
Total Revenues	<u>20,229,770</u>	<u>16,608,074</u>			
 Costs Incurred					
Personnel	796,771	468,378	-	-	5
Fringe Benefits	367,623	160,983	-	-	
Travel	111,705	73,312	-	34	A
Materials and Supplies	3,770,375	3,138,895	-	6,536	A
Contractual Services	938,097	668,982	-	-	
U.S. Subawards	12,263,508	10,713,098	-	-	6
Other Direct Costs	500,910	316,141	-	-	
Indirect Costs	1,480,781	1,068,285	-	2,020	
Total Program Amount	<u>\$ 20,229,770</u>	<u>\$ 16,608,074</u>	<u>\$ -</u>	<u>\$ 8,590</u>	
Outstanding Fund Balance		<u>\$ -</u>			

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

UNIVERSITY OF CALIFORNIA, DAVIS
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

For the Period July 1, 2015 through July 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying Special Purpose Financial Statement (the "Statement") reports revenues recognized and costs incurred under Cooperative Agreement Number AID-306-A-15-00001 for the AFGHANISTAN AGRICULTURE EXTENSION PROJECT II (the "Agreement") for the period July 1, 2015 to July 31, 2017. Because the Statement presents only a selected portion of the operations of the University of California, Davis (UC Davis), it is not intended to and does not present the financial position, changes in net position, or cash flows of UC Davis. 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 Agreement; therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the UC Davis basic financial statements.

NOTE 2 - BASIS OF ACCOUNTING

The Statement has been prepared on the modified accrual basis of accounting, whereby revenues are recognized in the period in which they become measurable and available, and expenditures are recognized in the period in which the associated liability is incurred.

NOTE 3 - FOREIGN CURRENCY CONVERSION METHOD

Afghanistan expenditures were converted and recorded in U.S. Dollars and all amounts in the Statement are presented in U.S. Dollars.

The operational currency in Afghanistan is the Afghani. The average exchange rate for the reporting period July 1, 2017 to July 31, 2017 was 1.00 U.S. Dollar = 66.88 Afghani.

NOTE 4 - REVENUES

Revenues reported in the Statement represent the amount of funds to which UC Davis is entitled to receive from the U.S. Agency for International Development (USAID) for allowable, eligible costs incurred under the contract during the period July 1, 2015 to July 31, 2017.

NOTE 5 - COSTS INCURRED BY BUDGET CATEGORY

The budget categories presented and associated costs incurred reflect the budget line items presented within the final, approved contract budget are as follows:

Personnel: This category includes all national and international personnel salary costs.

Fringe Benefits: This category includes the benefits expenses of the personnel participating in the award. Fringe benefits are calculated using rates approved by UC Davis' cognizant federal agency (Department of Health and Human Services). Section II: Special Remarks of the Rate Agreement describes the treatment of fringe benefits.

Travel: This category includes all travel related expenses including national and international airfare, per diem allowances, visa fees, meals, transportation and accommodations.

(Continued)

UNIVERSITY OF CALIFORNIA, DAVIS
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

For the Period July 1, 2015 through July 31, 2017

NOTE 5 - COSTS INCURRED BY BUDGET CATEGORY (Continued)

Materials and Supplies: This category includes the purchase of office supplies, field gear and field mission supplies. This category also includes required costs associated with several short-term trainings that were conducted in country.

Contractual Services: This category includes expenses for personal service and service contracts.

U.S. Subawards: This category includes expenses incurred by U.S. subawardees.

Other Direct Costs: This category includes the cost of hosting the annual extension conference, where the Afghan extension agents, Ministry of Agriculture, Irrigation & Livestock (MAIL) technical personnel and District Agriculture, Irrigation and Livestock offices (DAIL) technical personnel were the primary conference participants. This category also includes the bi-annual meetings of the Afghanistan Agriculture Extension Project II's Steering Committee (SC).

Indirect Costs: Indirect costs are calculated using UC Davis' federally negotiated rate agreement. The indirect costs applied to this project were based on the total modified direct costs and used the split-rate method to properly reflect costs associated with on-campus efforts and those with off-campus efforts.

The budget categories presented and associated costs incurred reflect the budget line items presented within the final, approved contract budget. The budget amounts presented in the SPFS represent the total budgeted amounts for the entire performance period October 1, 2014 through July 31, 2017. The actual amounts presented in the SPFS represent only costs incurred for the period July 1, 2015 – July 31, 2017.

NOTE 6 - SUBRECIPIENTS (OR GRANTS-UNDER-CONTRACT)

Subrecipients	Costs
Washington State University	\$ 3,740,357
The Texas A&M AgriLife Research	2,504,026
University of Maryland	2,567,013
Purdue University	1,901,702
Total	\$ 10,713,098

NOTE 7 - PROGRAM STATUS

The AFGHANISTAN AGRICULTURE EXTENSION PROJECT II is complete.

NOTE 8 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to July 31, 2017, the period covered by the Statement, through January 31, 2019. No subsequent events were identified that would impact the Statement.

UNIVERSITY OF CALIFORNIA, DAVIS
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE
SPECIAL PURPOSE FINANCIAL STATEMENT
For the period July 1, 2015 through July 31, 2017

NOTE A – FOREIGN CURRENCY TRANSLATION

Finding 2018-01 Procedures performed resulted in identification of twelve (12) vendor payments and respective indirect costs, which were overpaid in the net amount of \$8,590. The questioned costs are in the following budget categories: travel and materials and supplies. UC Davis did not have a process in place to evaluate the accuracy of foreign currency translation for transactions with international vendors.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chancellor of UC Davis
One Shields Avenue
Davis, California 95616

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 University of California, Davis (UC Davis), and related notes to the Statement, with respect to building on the innovations of Afghan farmers, and promoting coordination among various entities providing extension-related services, for the period July 1, 2015, through July 31, 2017. The Cooperative Agreement (the "Agreement") is funded by cooperative agreement number AID-306-A-15-00001. We have issued our report thereon dated January 31, 2019.

Internal Control over Financial Reporting

UC Davis' 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 contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period July 1, 2015, through July 31, 2017, we considered UC Davis' 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 UC Davis' internal control. Accordingly, we do not express an opinion on the effectiveness of UC Davis' internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2018-01, 2018-03, and 2018-04 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2018-02, to be a significant deficiency.

UC Davis Federal's Response to the Findings

UC Davis' response to the findings 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 UC Davis, 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.


Crowe LLP

January 31, 2019
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Chancellor of UC Davis
One Shields Avenue
Davis, California 95616

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 University of California, Davis (UC Davis), and related notes to the Statement, with respect to building on the innovations of Afghan farmers, and promoting coordination among various entities providing extension-related services, for the period July 1, 2015, through July 31, 2017. The Cooperative Agreement (the "Agreement") is funded by cooperative agreement number AID-306-A-15-00001. We have issued our report thereon dated January 31, 2019.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of UC Davis.

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 three (3) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-01, 2018-03 and 2018-04, in the accompanying Schedule of Findings and Questioned Costs.

UC Davis' Response to the Findings

UC Davis' response to the findings 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.

(Continued)

Restriction on Use

This report is intended for the information of UC Davis, 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.

Crowe LLP
Crowe LLP

January 31, 2019
Washington, D.C.

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

Finding 2018-01 Inadequate Oversight of Foreign Currency Transactions

Material Weakness Internal Control, Noncompliance

Condition:

UC Davis did not provide reasonable assurance that foreign currency translations for transactions paid by foreign vendors were adequately documented and reviewed.

Crowe tested foreign currency conversions, and found that the rates UC Davis adopted were not the rates used by the vendors, to convert transactions from local currency to US dollars. The basis the vendors were using when converting from US dollars to the local currency, and vice versa, could not be determined.

Crowe tested twelve (12) foreign currency transactions with total expenditures in the amount of \$326,142. We found that for the twelve (12) invoices in the testing sample, the net amount overpaid due to the rate variance inclusive of related indirect costs was \$8,590.

Criteria:

OMB CIRCULAR A133 SUBPART C §300 AUDITEE RESPONSIBILITIES

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

SECTION M15 OF THE COOPERATIVE AGREEMENT REGARDING THE CONVERSION OF UNITED STATES DOLLARS TO LOCAL CURRENCY:

“Upon arrival in the cooperating country, and from time to time as appropriate, the recipient's chief of party must consult with the Mission Director who must provide, in writing, the procedure the recipient and its employees must follow in the conversion of United States dollars to local currency. This may include, but is not limited to, the conversion of currency through the cognizant United States Disbursing Officer or Mission Controller, as appropriate.”

Cause:

UC Davis did not have procedures in place to review transactions paid to international vendors to ensure that the rates used were adequately documented and accurate. As such they were unable to detect when errors or inconsistencies occurred in the foreign currency conversion process.

Effect:

Lack of oversight by UC Davis caused the US Government to overpay for goods and services.

Questioned costs:

\$8,590

Recommendation:

We recommend UC Davis repay USAID \$8,590 that was overpaid to vendors by UC Davis or provide documentation indicating that the currency translations were properly completed and documented.

We further recommend that UC Davis develop and implement internal controls to review foreign currency transactions to ensure (1) the accuracy of transactions and (2) to prevent reimbursements based on undocumented conversion rates.

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

Finding 2018-02: Recordkeeping-Retention of Duplicates of Records Held Overseas

Significant Deficiency in Internal Control

Condition:

UC Davis was unable to provide evidence of submission of the following quarterly progress reports.

- 1) Quarterly Progress Report FY16 Q2 due by April 30, 2016
- 2) Quarterly Progress Report FY16 Q3 due by July 30, 2016

UC Davis did not retain records to demonstrate that it had submitted two (2) of the six (6) quarterly reports tested.

Criteria:

OMB CIRCULAR A133 SUBPART C §300 AUDITEE RESPONSIBILITIES

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

TITLE 22 - FOREIGN RELATIONS | CHAPTER II - AGENCY FOR INTERNATIONAL DEVELOPMENT |
PART 226 - ADMINISTRATION OF ASSISTANCE AWARDS TO U.S. NON-GOVERNMENTAL
ORGANIZATIONS

§ 226.53 Retention and access requirements for records.

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

§226.51 monitoring and reporting program performance.

- (a) The terms and conditions of the agreement will prescribe the frequency with which the performance reports shall be submitted. [...] Quarterly or semi-annual reports shall be due 30 days after the reporting period.

Cooperative Agreement Section A.7.2 c

Quarterly Progress reports [...] shall summarize (1) progress to date, per the agreed-upon deliverables; (2) identification of specific problems and delays and recommendations for adjustments and corrective action; (3) outcomes of any high-level meetings held and field visits; (4) planned activities for the next reporting period; (5) assessment of the validity and efficacy of progress against the objectives and results; (6) progress on gender and environmental compliance, including but not limited to issues arising.

Cause:

In its role as the administrator of the Cooperative Agreement, UC Davis did not ensure that duplicate or back-up records were maintained for reports that originated in Afghanistan. When UC Davis had to suspend operations in Afghanistan, due to security concerns, records could not be recovered. UC Davis Indicated that it no longer had access to email accounts or individuals who would have been able to provide the required evidence which would demonstrate compliance with the timeliness of report submission.

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

Effect:

USAID may not have been informed of UC Davis' program performance without the submission of the reports on a timely basis.

Questioned costs:

None

Recommendation:

We recommend that UC Davis develop controls to safeguard important programmatic records maintained outside its normal on-campus practices to ensure that these records are maintained in accordance with Federal requirements. Accordingly, UC Davis should develop and implement internal controls to maintain duplicates of such records, in order to ensure that evidence of compliance with laws and regulations is maintained.

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

Finding 2018-03: Federal Compliance- Cost Principles- Inadequate supporting documentation

Material Weakness Internal Control, Noncompliance

Condition:

UC Davis utilized subrecipients to help carry out the activities of the Cooperative Agreement in Afghanistan. The following were the subrecipients during our audit period:

Washington State University
The Texas A&M AgriLife Research
University of Maryland
Purdue University

UC Davis did not obtain adequate evidence to conclude that payments made to the University of Maryland and Purdue University were for activities which were allowable and consistent with cost principles requirements as part of its review of expenditures prior to payment. UC Davis did not obtain the sufficient level of detail to evaluate whether the subrecipients' claims were for activities described in the subrecipient agreements. UC Davis was only provided invoices with summary level information, by expense category.

Crowe tested 61 disbursements, including a combined total of 54 disbursements to Purdue University (Purdue) and University of Maryland (Maryland), which represents all the invoices paid to Purdue and Maryland during the audit period. UC Davis did not obtain invoice detail with sufficient underlying information for all 54 of the Purdue and Maryland subrecipient transactions. The invoice detail provided to UC Davis was limited to total expenditure amounts by budget category. A summary of expenditures to Purdue and Maryland are indicated in the table below.

Subrecipient	Number of Transactions Tested	Expenditures
Purdue University	28	\$1,901,702
University of Maryland	26	2,567,013
Total Expenditures	54	\$4,468,715

The amounts above were originally questioned as UC Davis did not have the appropriate supporting documentation at the time of field-work. However, after a draft report was issued, UC Davis obtained additional support from Purdue University and the University of Maryland and provided such data to Crowe with its management responses on January 9, 2019.

Criteria:

OMB CIRCULAR A133 SUBPART C §300 AUDITEE RESPONSIBILITIES

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

OMB CIRCULAR A21- §220 APPENDIX A Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions

C. Basic Considerations

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances;

In addition, the UC Davis Monitoring Subaward policy, "In the event the level of detail included on an invoice is not sufficient to fully understand the costs, or if it appears that some costs may be excessive or understated, the Principal Investigator, typically (with the help of departmental administrator) needs to question the subrecipient's expenditures by requesting further documentation or explanation prior to approving an invoice.

Cause:

UC Davis did not properly implement its internal controls for obtaining evidence in determining allowability of costs for payments to subrecipients' use of funds in accordance with federal statutes, regulations, and the terms and conditions of the subaward.

Effect:

The Federal government may have paid unallowable or unallocable costs incurred by UC Davis' subrecipients.

Questioned costs:

None as UC Davis provided additional information to support the costs as allowable with its management responses on January 9, 2019.

Recommendation:

UC Davis should strengthen its practices, so that the allowability of subrecipient costs are verified before disbursements to them are made and so that its current policies are properly implemented.

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

Finding 2018-04 Subrecipient Monitoring

Material Weakness in Internal Control, Noncompliance

Condition:

UC Davis did not have properly designed processes and controls for monitoring subrecipient's activities in accordance with federal requirements and their internal policies.

UC Davis did not maintain evidence of a review of the financial and performance reports from the subrecipients. Management asserted that there were frequent communications with and oversight over subrecipients and their respective vendors to monitor expenditures and activities. However, UC Davis did not maintain documentary evidence of such communications. Regional Site Managers and the Chief of Party made up a Steering Committee that was scheduled to meet on a monthly basis to discuss progress. However, UC Davis did not maintain records of these monitoring/oversight activities and could not provide evidence of the communications described by UC Davis' management.

UC Davis executed four subrecipient agreements. UC Davis was unable to provide evidence of programmatic/progress monitoring for any of the subrecipients tested.

Criteria:

OMB CIRCULAR A133 SUBPART C §300 AUDITEE RESPONSIBILITIES

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

OMB CIRCULAR A133 SUBPART D FEDERAL AGENCIES AND PASS THROUGH AGENCIES §400 RESPONSIBILITIES

(d) Pass-through entity responsibilities

All pass-through entities must:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Per the UC Davis Monitoring a Subaward policy, "The Principal Investigator is obligated to be in contact with the sub-recipient regularly to discuss technical progress and receive and review required reports or deliverables".

Cause:

UC Davis did not properly design and implement internal controls over the maintenance of records evidencing the required monitoring of subrecipients occurred. In addition, UC Davis was required to leave Afghanistan before the work was completed which also led to the loss of documentation.

Effect:

Unless evidence of programmatic monitoring is performed during the audit period, the U.S. cannot be assured that the subrecipients used federal funds in accordance with federal statutes, regulations, and determine progress met in achieving the program objectives and the terms and conditions of the subaward.

UNIVERSITY OF CALIFORNIA, DAVIS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the period July 1, 2015 through July 31, 2017

Questioned costs:

None

Recommendation:

UC Davis should develop a comprehensive monitoring tool, which explicitly includes monitoring subrecipient compliance with federal statutes, regulations, and the terms and conditions of the subaward, including the extent that fiscal and performance goals are achieved.

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS



January 9, 2019

Crowe LLP
Attn: Mr. Bert Neuhring
1455 Pennsylvania Avenue N.W., Suite 700
Washington, D.C. 20005

Dear Mr. Neuhring,

Thank you for providing the University of California, Davis with the opportunity to respond to the draft audit report of Cooperative Agreement #AID-306-A-15-0001 for the period July 1, 2015 through July 31, 2017.

We have reviewed your audit report and provide the following management responses and corrective action plans, where applicable.

Management's Response to Finding 2018-01 Inadequate Oversight of Foreign Currency Transactions:

UC Davis partially agrees with Crowe's audit finding and recommendation; however, we do not agree that this is an issue of non-compliance, nor do we agree this is a material weakness in internal control. Because of the nature of how transactions occur, it is reasonable for there to be slight variances between the official foreign currency exchange rate and the exchange rate used when contracting with the local vendors in Afghanistan. In addition, most banks and currency exchanges charge a conversion fee so it is reasonable that the vendors transacting only in Afghanistan would use a slightly higher USD conversion rate to cover any exchange fees or fluctuations in value. Of the samples selected, the exchange rates were an average of 2% higher than the monthly published rate, which is a reasonable exchange rate fee to be charged by the local vendors.

As per section M15 of the cooperative agreement, the Chief of Party contacted the USAID Agreement Officer requesting USAID's policy on the exchange of U.S. dollars and Afghanistan. In response, USAID provided information regarding salary payment exchange rates only. No other policy or guidance was received and we were directed to the OAA (Office of Acquisition and Assistance) if we had any questions regarding ethical and sound exchange rate procedures. Evidence of this communication was provided to the auditors. As we had been converting local currency using what we believed to be very ethical, sound and defensible procedures, we did not reach out to OAA for additional guidance.

As for the process in place at UC Davis, the Chief of Party was the individual reviewing the paid invoices and writing the exchange rate used for each transaction, which varied slightly from the effective formal exchange rates, as expected and discussed above. Invoices were submitted to UC Davis with both the Afghani (AFN) amount and the amount converted to USD and recorded in a spreadsheet for tracking purposes. The analyst at UC Davis reviewing the support provided by the Chief of Party would ensure the foreign currency conversion was reasonable although this review was not formally documented. We agree that formalizing procedures for transacting cash payments in foreign currency marketplaces and communicating best practices will further strengthen existing controls.

Based on the information provided above, UC Davis disagrees that the \$8,590 amount reported by Crowe is a true unsupported cost. We believe the exchange rates used to do the conversions were reasonable and no repayment to USAID is necessary.

Management’s Corrective Action Plan:

UC Davis will formalize procedures and communicate best practices for transacting cash payments in foreign currency marketplaces.

Management’s Response to Finding 2018-02: Recordkeeping-Retention of Duplicates of Records Held Overseas:

UC Davis partially agrees with this audit finding as we were unable to provide evidence of timely submission; however, in compliance with the terms and conditions of this cooperative agreement, we submitted quarterly and annual progress reports to the USAID Agreement Officers Representative assigned to this project. Copies of all project progress reports were submitted to Crowe during fieldwork. Many of the reports bear the USAID “APPROVED” endorsement stamp and/or a USAID signed approval certification.

When the auditors requested evidence of timely submission, we provided what was available at the time, but since the audit fieldwork was completed, we located evidence of timely submission for the two reports noted in this finding (attached in the document package). We believe this demonstrates our compliance with the agreement’s reporting terms and conditions.

Management’s Corrective Action Plan:

UC Davis will reinforce existing record retention policies.

Management’s Response to Finding 2018-03: Federal Compliance- Cost Principles- Inadequate supporting documentation:

We disagree with Crowe’s audit findings. UC Davis follows the standard practices established through the Council on Government Relations (COGR) for managing subrecipients and more specifically, the procedures outlined by the Federal Demonstration Partnership (FDP). As FDP members, UC Davis, Purdue University and University of Maryland must meet certain common organizational standards. For example, FDP Phase VI members have affirmed, via their execution of a Memorandum of Understanding (MOU) that they adhere to federally-compliant management and administrative procedures and systems. They also affirm that they are not suspended, debarred or otherwise excluded from federal programs. These shared characteristics among member institutions allows for the use of the simplified FDP templates. We do not believe that placing additional administrative burden on the subawardee to provide a detailed listing of costs gives the approver more comfort or ability to approve the subaward invoices nor is this required by federal regulations.

UC Davis in its role as administrator of the cooperative agreement utilized the following processes, which meet the OMB Circular A-21 and A-133 compliance requirements, to reasonably ensure that the subawardees meet Federal regulations and the specific terms and conditions of the award:

1. The processes and controls implemented by UC Davis over subrecipients are in compliance with Federal requirements and UC Davis policies and procedures:
 - a. Risk assessment procedures are performed over all sub-recipients using a risk assessment matrix where 15 categories are assessed to determine risk, including items such as:
 - Review of A-133 or single audit reports and audit results;
 - Previous experience with UC Davis;
 - Maturity and type of organization;
 - Subaward scope and budget.

All of the subawardees working on this cooperative agreement were determined to be low risk and no additional subaward conditions or monitoring procedures were deemed necessary. The support affirming the completion of our risk assessment process for the subawardees was provided to Crowe during fieldwork.

- b. Activities of the subrecipient were monitored, as necessary to ensure that the subaward is used for authorized purposes, included the following:
 - Monthly project status reports were provided by the subawardees and discussed during monthly project status meeting between the regional site managers and the Chief of Party (COP). The PI was regularly informed by the COP about the status of the project. The PI met with all of the subawardees, COP, USAID and mission officials on a semi-annual basis. The budget for each of the subs was developed based on their specific roles and duties to meet the objectives of the agreement. The quarterly reports served as a determination that the project was progressing and on track.
 - Additionally, since this is a cooperative agreement, USAID was substantially involved in carrying out the activities and direction of the federal award. The Chief of Party frequently met with the Agreement Officer's Representative throughout the project.

2. Additional GL details to support the invoices provided by the sub-awardees for payment were not deemed necessary for the following reasons:
 - a. The invoices submitted were:
 - Standard invoices submitted on all UC Davis sub-awards from these institutions
 - Follow the FDP template that is deemed to be acceptable for Federal awards.
 - Had the requisite level of detail based on the major cost categories, and were in line with budgeted amounts and the progress completed to date on the project.
 - The Chief of Party, which is the named Key Personnel in the award agreement was in frequent contact with the PI, who was the individual responsible for approving the subaward invoices for payment. Because of this communication, the PI was comfortable approving the invoices because the work on the project was progressing and in line with the expenses being charged on the invoice.
 - Each questioned invoice contained a certification by the institutions that the costs are allowable and in accordance with the award terms and conditions.
 - b. Each subaward agreement has a provision that allows UC Davis to further review or audit their records. During the audit process, UC Davis requested detailed ledgers to support each of the invoices, in which the detail was readily available, received without issue and agreed

to the approved subaward invoices. These detailed ledgers were provided during the audit, but not considered as part of the audit finding.

Based on the above standard process related to subaward approvals, it is UC Davis' position that the payments to the University of Maryland and Purdue University met the basic considerations of allowability as required in OMB CIRCULAR A21- §220 APPENDIX A Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions:

C.2.(a) The expenditures and invoices were reasonable:

The invoices represent reasonable expenses based on the approved subaward budget and cost categories. UC Davis reviewed the reasonableness of the amounts requested to the major budget categories. The PI and departmental financial analyst followed UC Davis' Monitoring Subaward guidance, which allows for the approval of standard subaward invoices without additional transactional detail.

C.2.(b) The expenditures and invoices were allocable to the project:

Costs are allocable to a sponsored agreement if they benefit the project. UC Davis relies on the internal controls of the sub-recipient institutions to allocate the appropriate costs to the awards. The institutions certify that all the costs on each invoice are allowable and used for the purpose of the award. The PI and Chief of Party were in regular contact with the subrecipients and were able to be reasonably sure that the level of expenditures were allocable to the award based on the level of progress and activities completed on the award.

C.2.(c) Consistent treatment:

The consistent treatment provision in the cost principles is related to consistently treating costs in like circumstances. As the payments to sub-recipients are directly allocable to specific sponsored awards, we consistently treat them as direct costs to the applicable sponsored award. UC Davis is consistent and compliant with treatment and requirements of subrecipient monitoring activities with all FDP institutions.

In conclusion and as outlined in the above response, UC Davis is confident that our internal controls related to the approval and payments of subrecipient invoices are in accordance with federal statutes, regulations, terms and conditions of the subawards and consistent with industry practice.

Management's Response to Finding 2018-04 Subrecipient Monitoring:

We disagree with the auditors' findings that UC Davis did not have properly designed processes and controls for monitoring subrecipient's activities in accordance with federal requirements and internal policies. As described in Management's Response for Finding 2018-03, we performed risk assessments on the subrecipients and found them to be low risk and no additional monitoring procedures were deemed necessary.

A variety of monitoring and oversight activities were conducted throughout the project to assess subawardee progress and ensure alignment with the individual subawards and overall project objectives:

- **Chief of Party (COP)** was physically in Afghanistan and worked very closely with the subawardees on a daily basis and was a named key personnel in the agreement. The subawardees provided monthly project status to the COP and the COP kept the PI regularly informed about the status of the project.
Evidence: A sample of email communications between the COP, PI and USAID is included as evidence.
- **Principal Investigator (PI)** was in regular communication with the subaward PIs
Evidence: A sample of PI email screen shots demonstrating ongoing communications with the subawardees (not previously provided during the audit).
- **Quarterly Reports:** Using the monthly status reports, the COP compiled the activities of all the project partners into quarterly reports. The PI received the quarterly reports and they served as a determination that the project was progressing on track.
Evidence: An example of subawardee/regional site reports and how the information flows up into the quarterly reports.
- **Executive Committee:** The PI physically met with the subawardee PIs semi-annually to further discuss the project and subawardee activities.
Evidence: The Executive Committee meeting minutes (not previously provided during the audit)
- **USAID:** This is a cooperative agreement where USAID was substantially involved in carrying out the activities and direction of the federal award. The Chief of Party frequently met with the Agreement Officer's Representative throughout the project. USAID representatives were also part of the Executive Committee.

UC Davis believes this provides overwhelming evidence of our due diligence in providing consistent and thorough programmatic monitoring of this federal award.

Thank you again for the opportunity to respond to the findings. Please do not hesitate to contact us if you have further questions or need additional information.

Sincerely,



Cindy Kiel

UC Davis Executive Associate Vice Chancellor for Research Administration



Matthew Okamoto

UC Davis Assistant Vice Chancellor and Campus Controller

APPENDIX B: AUDITOR'S REBUTTAL

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

January 31, 2019

Crowe LLP, in consideration of the views presented by the management of UC Davis, in the management responses provided January 9, 2019, presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual matters and provide context, where appropriate, to assist users of the report in their evaluation of the findings and recommendations included in this report.

Finding 2018-01, Inadequate Oversight of Foreign Currency Transactions

UC Davis partially agreed with Crowe's audit finding and recommendation; however, they did not agree that it was an issue of non-compliance, nor did they agree that the matter was a material weakness in internal control. UC Davis disagreed with the unsupported questioned costs of \$8,590, as they believe that the exchange rates used to do the foreign currency conversions were reasonable, therefore, they do not feel that repayment to USAID is necessary. However, UC Davis did not provide further information to change the calculation, furthermore, Crowe provided detailed calculations during field work of the amount of questioned costs, which were agreed to by UC Davis Management. Therefore, the finding stands as previously stated.

Finding 2018-02, Recordkeeping-Retention of Duplicates of Records Held Overseas

UC Davis partially agreed with Crowe's audit finding and recommendation; however, they did not agree that it was an issue of non-compliance, nor did they agree that the matter was a material weakness in internal control. Crowe LLP reviewed evidence provided, by UC Davis' management, after the audit and concluded that the reports were submitted within the required deadlines. However, UC Davis' management has a responsibility to maintain records which demonstrate compliance. As the information was not available for review during the course of the audit, a control deficiency exists. Crowe has deemed the matter no longer meeting the criteria for a compliance matter and we have revised the finding classification from a material weakness to a deficiency in internal control, therefore, the finding remains, however, it has been restated as a significant deficiency in internal control.

Finding 2018-03, Federal Compliance – Cost Principles – Inadequate Supporting Documentation

UC Davis disagreed with Crowe's audit findings and explained standard practices that UC Davis follows. However, the response that UC Davis management provided did not address the recommendation and the condition noted in this finding. As Crowe explained in the finding, UC Davis had four (4) subrecipients. For two of those subrecipients, the University of Maryland and Purdue University, there was insufficient documentation provided to us at the time of our audit to determine that UC Davis had reimbursed these subrecipients with sufficient support to justify the allowability and the allocability of costs. The documentation in question included summary invoices without detailed information to support the billings. UC Davis' procedures required detailed support be reviewed before payment of costs. UC Davis' management response to the audit finding did not explain why two of the subrecipients provided detailed invoices to determine that the costs were allowable and allocable at the time of payment while two different subrecipients, the University of Maryland and Purdue University, did not provide such details. Furthermore, UC Davis did not explain in their response that they had provided additional detailed support of the summary invoices for these two subrecipients to Crowe on January 9, 2019, with their responses to the findings. With this supplemental detailed information Crowe was able to eliminate the questioned costs identified during the audit field work and reported in the draft report.

Crowe LLP disagrees with the auditee's conclusion that its standard practices for monitoring subrecipient expenditures for compliance with Federal laws and regulations were sufficient to prevent or detect noncompliance. In practice, UC Davis did not consistently follow its internal policy to obtain and review sufficient invoice detail, to which would enable management to fully understand the claimed costs prior to approving the invoice for payment. Since UC Davis did not have the necessary information to demonstrate its evaluation of compliance during the course of its program administration, the finding stands. However, questioned costs have been eliminated from the finding as UC Davis provided detailed invoices after the receipt of the draft report.

Finding 2018-04 – Subrecipient Monitoring

Crowe disagrees with the auditee's conclusion that UC Davis performed appropriate subrecipient monitoring. Crowe agrees that UC Davis did perform risk assessment activities, as explained in their management response. However, the performance of risk assessments does not alleviate UC Davis responsibility as a pass through entity to monitor the administration of activities by its subrecipients. UC Davis indicated in its response that a variety of monitoring and oversight activities were conducted to assess subawardee progress and ensure alignment with the individual subawards and overall objectives. Attached to Management's Response were samples of email communication, screen shots, site reports and meeting minutes. This sample evidence was not provided during the audit field work and did not appear to be comprehensive and coordinated for the purpose of monitoring subawardees. The additional evidence provided by UC Davis does not support that monitoring of each subrecipient's compliance with uniform administrative requirements (as it pertains to the program under audit) such as transactional, cash management, procurement, reporting, subrecipient monitoring, etc., occurred. Therefore, the finding stands.

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