SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 19-45 Financial Audit

USAID's Afghanistan Capacity Building and Change Management Program-II: Audit of Costs Incurred by the Volunteers for Economic Growth Alliance

JULY 2019

SIGAR 19-45-FA/CBCMP-II

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 10, 2014, the U.S. Agency for International Development (USAID) awarded a $19.99 million fixed-fee cooperative agreement to the Volunteers for Economic Growth Alliance (VEGA) to fund the Capacity Building and Change Management Program-II. The program's purpose was to strengthen the Afghan government's human and institutional capacity to effectively deliver agricultural public services to farmers and herders. The agreement's period of performance was from July 10, 2014, through July 9, 2017. USAID modified the agreement seven times, increasing the agreement's obligation amount to $20.87 million. The performance period did not change.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed $11.9 million in revenues and expenses charged to the agreement from January 1, 2016, through July 9, 2017. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in VEGA's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the task order 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 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.

July 2019

USAID's Afghanistan Capacity Building and Change Management Program-II: Audit of Costs Incurred by Volunteers for Economic Growth Alliance

SIGAR 19-45-FA

WHAT THE AUDIT FOUND

Crowe identified six material weaknesses and one significant deficiency in VEGA's internal controls, and five instances of noncompliance with the task order and applicable laws and regulations. For example, the auditors found unsupported expenses on vendor invoices and could not confirm whether they were allowable. VEGA's pre-approved subcontractor, International Executive Service Corps (IESC), billed the government for administrative costs in excess of the negotiated indirect cost rate agreement (NICRA) for the project. In addition, VEGA did not require IESC to provide proof of payment, such as a wire transfer confirmation, to demonstrate that costs were incurred and paid in accordance with the Code of Federal Regulations' requirements to keep financial records.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified $252,720 in total questioned costs, consisting of $212,692 unsupported costs—costs not supported with adequate documentation or that do not have required prior approval, and $40,028 ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Unsupported Expenses on Vendor Invoices	$0	$116,371	$116,371
Improper Allocation of NICRA	$39,886	$0	$39,886
Proof of Payment	$0	$96,321	$96,321
Expenses Outside Period of Performance	$142	$0	$142
Totals	**$40,028**	**$212,692**	**$252,720**

Crowe reviewed three prior audits pertaining to VEGA's cooperative agreement and did not identify any findings pertaining to the SPFS.

Crowe issued a disclaimer opinion on VEGA's SPFS because VEGA did not provide a signed representation letter as required by auditing standards. Due to the lack of sufficient, appropriate audit evidence to provide a basis for an audit opinion, Crowe did not express an opinion on the SPFS for the period indicated.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, $252,720 in questioned costs identified in the report.**
2. **Advise VEGA to address the report's seven internal control findings.**
3. **Advise VEGA to address the report's five noncompliance findings.**

SIGAR | Office of the Special Inspector General for Afghanistan Reconstruction

July 10, 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 Volunteers for Economic Growth Alliance (VEGA) under a U.S. Agency for International Development (USAID) fixed-fee cooperative agreement to fund the Capacity Building and Change Management Program-II (CBCMP-II).[1] The program's purpose was to strengthen the Afghan government's human and institutional capacity to effectively deliver agricultural public services to farmers and herders. Crowe reviewed $11.9 million in revenues and expenses charged to the agreement from January 1, 2016, through July 9, 2017. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. **Determine the allowability of and recover, as appropriate, $252,720.36 in questioned costs identified in the report.**
2. **Advise VEGA to address the report's seven internal control findings.**
3. **Advise VEGA to address the report's five 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 VEGA's Special Purpose Financial Statement. We also express no opinion on the effectiveness of VEGA's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which 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-132)

[1] The cooperative agreement number is AID-306-A-14-00010.

Volunteers for Economic Growth Alliance

Capacity Building and Change Management Program - II

Special Purpose Financial Statement

Cooperative Agreement No. AID-306-A-14-00010

For the Period January 1, 2016, through July 9, 2017 (Closeout)

(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

June 28, 2019

To the Board of Directors and Management of
Volunteers for Economic Growth Alliance
734 15th Street NW Suite 1100
Washington, DC 20005

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of Volunteers for Economic Growth Alliance's ("VEGA") cooperative agreement number AID-306-A-14-00010 with the United States Agency for International Development funding the Capacity Building and Change Management Program - 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 VEGA, the Office of the Special Inspector General for Afghanistan Reconstruction, and the United States Agency for International Development 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 VEGA's cooperative agreement.

Sincerely,

John C. Weber

John C. Weber, CPA, Partner
Crowe LLP

SUMMARY

Background

On July 10, 2014, Volunteers for Economic Growth Alliance ("VEGA" or "the Auditee") entered into a fixed fee cooperative agreement with the United States Agency for International Development ("USAID"). Cooperative Agreement Number AID-306-A-14-00010, was used to fund the Capacity Building and Change Management Program – II ("CMBCP-II" or the "Program"). The cooperative agreement was issued for the three year period beginning on July 10, 2014 through July 9, 2017, with a total estimated cost of $19,999,989.29. Of the $19,999,989.29, $6,520,000.00 was obligated through issuance of the original award. USAID subsequently issued seven modifications to the cooperative agreement mostly for administrative matters and incremental funding. Through the modifications, the obligation amount increased to $20,874,463.84. The modifications did not impact the program's period of performance date, which was set to be completed by July 9, 2017. Crowe noted that VEGA ceased substantially all operations as of December 31, 2018 and is in the process of dissolving in 2019.

USAID issued the cooperative agreement as a means to strengthen the human and institutional capacity of the Ministry of Agriculture, Irrigation, and Livestock ("MAIL") and the Directorate of Agriculture, Irrigation, and Livestock ("DAIL") to effectively deliver agricultural public services to farmers and herders. The Project focused on key Directorates and 20 DAILs and 50 District Offices. VEGA engaged, through a pre-approved subcontractor, International Executive Service Corps ("IESC") to implement the cooperative agreement. IESC also utilized a pre-approved subcontractor, International City/County Managers Association ("ICMA"). VEGA's involvement was limited to administrative matters and project oversight.

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 VEGA under cooperative agreement number AID-306-A-14-00010.

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 VEGA's Special Purpose Financial Statement for the cooperative agreement presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the Project and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – 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.

Audit Objective 3 – 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 cooperative 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 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 the audit included the period January 1, 2016 through July 9, 2017. During this time period VEGA reported revenues and expenses of $11,900,378.36. Crowe notes this is a closeout audit and the final closeout is pending as VEGA and IESC's Negotiated Indirect Cost Rate Agreement ("NICRA") has not been finalized; accordingly the audited indirect expenses were based on provisional NICRA rates. The audit was limited to those matters and procedures pertinent to the Project that have a direct and material effect on the 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 whether there were material misstatements and whether 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 costs;
- Allowable activities;
- 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 whether adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

Crowe noted while VEGA subcontracted out all of the implementation of the Project to IESC, the budget in the cooperative agreement and VEGA's special purpose financial statement show direct expenses as if VEGA incurred direct costs. Crowe communicated the unusual presentation to SIGAR and requested clarification from USAID. USAID's response was "Section A.4 of the cooperative agreement, and as subsequently modified, incorporates VEGA and IESC's budgeted costs by category, except for the line item "VEGA Indirect Cost," which would include costs incurred by VEGA only. The budget application submitted by VEGA/IESC included IESC's costs in the overall budget and was not separated in the Subaward costs." Crowe noted this presentation is abnormal and required the audit to be split between testing at VEGA and IESC.

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 whether the transactions were recorded in accordance with the basis of accounting identified by the Auditee, were incurred within the period covered by the SPFS and in alignment with specified cutoff dates, were appropriately allocated to the award if the cost benefited multiple objectives, and were adequately supported.

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

Audit Objective 3 requires that tests be performed to obtain an understanding of the Auditee's compliance with requirements applicable to the Project. Crowe identified – through review and evaluation of the Project, 22 CFR Part 226 *Administration of Assistance Awards to U.S. Non-Governmental Organizations* and 2 CFR Part 200 *Uniform Guidance* – the criteria against which to test the SPFS and supporting financial records and documentation. 22 CFR Part 226 was applicable as of the date of execution of the original cooperative agreement. Modification 6, dated October 20, 2016, changed the applicable criteria to 2 CFR Part 200. All findings noted in this report are applicable under both criteria. Findings also include items both pre and post modification 6, and, for reporting purposes, the current criteria are cited in each finding.

As VEGA subawarded all direct costs to IESC under the cooperative agreement, allowable cost and allowable activity compliance testing was performed at IESC. Using sampling techniques, Crowe selected expenditures, vouchers submitted to the Government for payment, procurements, and property and equipment dispositions for testing. Supporting documentation was provided by the Auditee and IESC and subsequently evaluated to assess VEGA's compliance. 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 approved indirect cost rates. Crowe also reviewed whether the adjustments to billings based on preliminary or proposed rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe queried VEGA, USAID and SIGAR regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We obtained and reviewed three audit reports, noted within **SECTION 2**, relating to the Project. See report information below:

- SIGAR Report No. 8-306-17-003-N performed by CohnReznick LLP, *"Financial Audit of Costs Incurred by Volunteers for Economic Growth Alliance (VEGA) for Afghanistan, under the Capacity Building and Change Management Program-II (CMBCP-II), Associate Cooperative Agreement AID-306-A-14-00010, for the period from January 1 2015, to December 31, 2015"* dated March 9, 2017;
- Audit of the *Financial Statements and Reports Required by the Uniform Guidance* performed by Calibre CPA Group, PLLC for the year ended December 31, 2016 dated July 26, 2017; and
- Audit of the *Financial Statements and Reports Required by the Uniform Guidance* performed by Calibre CPA Group, PLLC for the year ended December 31, 2017 dated August 10, 2018.

Crowe noted that the CohnReznick LLP final report noted no questioned costs. That report and the two annual Single Audits did not report any significant deficiencies or material weaknesses in internal controls or compliance with applicable laws and regulations and/or contractual obligations. Additionally none of the reports identified any fraudulent or illegal acts that occurred, or were likely to have occurred, during the respective audit periods. Therefore Crowe noted there were no previous audit findings that required follow-up during the current audit.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified seven findings because they met one or more 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 contract task order; and/or (4) questioned costs resulted from identified instances of noncompliance.

Crowe issued a disclaimer of opinion on the SPFS due to an inability to obtain the required management representation letter from VEGA. Pursuant to the applicable auditing standards, a representation letter is required from management and should include matters such as VEGA's assertion that it takes responsibility for the SPFS and accompanying notes prepared by VEGA, complied in all material respects with applicable compliance requirements, acknowledges responsibility for implementing corrective action on audit findings, and other matters. In the event that Crowe had received a management representation letter that met the applicable requirements, Crowe would have issued a qualified opinion on the SPFS due to the questioned costs described below.

While Crowe issued a disclaimer of opinion for the SPFS as a whole, Crowe reported separately on both VEGA's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract task order and the internal controls over financial reporting. We identified six material weaknesses in internal control, one significant deficiency in internal control, and five instances of noncompliance that were reported. 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 $252,720.36 in costs reported on the SPFS were questioned because they were ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. Questioned costs appearing on the SPFS are summarized in TABLE A, which reports questioned costs identified in each finding as well as cumulative unique questioned costs. Findings were segregated to avoid duplication of questioned costs.

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 VEGA's financial performance under the Project. According to communications with VEGA, SIGAR and USAID, there were three audits issued pertaining to Cooperative Agreement Number AID-306-A-14-00010. The results of the follow-up procedures and the status of the findings are noted within Section 2.

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	Cumulative Unique Questioned Costs
2018-01	Cash Advance Drawdown Approvals	$0	$0
2018-02	Incorrect Documentation in Books and Records	$0	$0
2018-03	Subrecipient Monitoring	$0	$0
2018-04	Unsupported Expenses on Vendor Invoices	$116,370.90	$116,370.90
2018-05	Improper Allocation of NICRA Base	$39,885.84	$156,256.74
2018-06	Expenses Outside Period of Performance	$142.00	$156,398.74
2018-07	Proof of Payment	$96,321.62	$252,720.36
Total Questioned Costs			**$252,720.36**

Summary of Management Comments

- Finding 2018-01: Management agrees.
- Finding 2018-02: Management agrees.
- Finding 2018-03: Management agrees.
- Finding 2018-04: Management agrees to refund the government $167.43; Management disagrees with the remainder of the finding's questioned costs and provided additional documented not previously submitted during the audit process.

- Finding 2018-05: Management agrees to review NICRA rates and bases, however disagrees with the questioned costs and provided documentation not previously submitted during the audit process; Management also agrees to perform a true-up once final NICRA rates are provided and reimburse the government if applicable.
- Finding 2018-06: Management agrees to refund the government $142.
- Finding 2018-07: Management disagrees with the questioned cost and provided documentation not previously submitted during the audit process.

We reviewed the management response provided by IESC (comments were provided by IESC as VEGA ceased normal operations except routine corporate administrative functions and administration of remaining nonoperating assets as of December 31, 2018). In the management's response IESC provided additional documentation in relation to the findings that was not made available to Crowe during fieldwork, or after the exit conference on December 18, 2018 through January 11, 2019, the cutoff date for any additional information to be provided to Crowe. Accordingly, the findings remain unchanged and the additional documentation with management's response will be forwarded to the funding agency for review by the Agreement Officer.

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 Board of Directors and Management of
Volunteers for Economic Growth Alliance
734 15th Street NW Suite 1100
Washington, DC 20005

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 were engaged to audit the Special Purpose Financial Statement ("the Statement") of Volunteers for Economic Growth Alliance ("VEGA"), and related notes to the Statement, with respect to the Capacity Building and Change Management Program – II, funded by Cooperative Agreement Number AID-306-A-14-00010, for the period January 1 2016 through July 9, 2017.

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 Statement based on conducting the 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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management elected not to provide a signed representation letter as required by the aforementioned auditing standards. Pursuant to AU-C 580, *Written Representations,* failure to obtain management's representations regarding fraud, uncorrected misstatements, estimates, related parties, and subsequent events represents a scope limitation and is cause to issue a disclaimer of opinion. In the absence of the representations, we were unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

(Continued)

SIGAR requires that the Statement present costs incurred under the contract that are allowable and reimbursable in accordance with the cooperative agreement's terms and conditions. During the course of the audit, we identified known questioned costs of $252,720 as a result of VEGA's failure to fully comply with the cooperative agreement's requirements. We estimated the total effect of the noncompliance on the Statement by extrapolating the impact of the identified errors on the population of costs incurred as reported on the Statement. Based on the extrapolation, the total effect of the noncompliance is presumed to be material to the Statement as a whole. In the event we were able to obtain a signed management representation letter, we would have issued a qualified opinion on the Statement based on the presumed noncompliance.

Disclaimer Opinion

Because of the significance of the matter described discussed in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Statement.

Basis of Presentation and Accounting

We draw attention to Note 1 and Note 2 to the Statement, which describes the basis of presentation and accounting. The Statement was prepared by VEGA in accordance with the requirements specified by SIGAR and presents those expenditures as permitted under the terms of Cooperative Agreement Number AID-306-A-14-00010, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 12 to the special purpose financial statement, VEGA ceased normal operations except routine corporate administrative functions and administration of remaining nonoperating assets as of December 31, 2018. The company is in process of liquidation and expects to dissolve in 2019.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated June 28, 2019, on our consideration of VEGA's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VEGA's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

June 28, 2019
Washington, D.C.

Volunteers for Economic Growth Alliance
Special Purpose Financial Statement
Cooperative Agreement No. AID-306-A-14-00010
For the Period January 1, 2016, to July 9, 2017

	Budget	Actual	Questioned Costs Ineligible	Questioned Costs Unsupported	Notes
Revenues					
Cooperative Agreement No. AID-306-A-14-00010	$ 20,638,852	$ 11,900,378			4
Total Revenue	$ 20,638,852	$ 11,900,378			
Costs Incurred					6, 9
Personnel	$ 6,042,365	$ 3,359,745			
Fringe Benefits	$ 878,865	$ 402,873			
Consultant	$ 40,200	$ 108,926			
Travel	$ 671,352	$ 135,756	$ 142		C
Equipment & Supplies	$ 648,856	$ 656,322			
Allowances	$ 2,268,574	$ 277,905			
Subawards	$ 2,928,018	$ 2,275,364			
Other Direct Costs	$ 569,243	$ 1,389,958			
Securities	$ 1,983,932	$ 601,553			
Indirect Costs	$ 3,853,624	$ 2,146,455	$ 39,886		B
Total Costs before VEGA G&A	$ 19,885,029	$ 11,354,857	$ 40,028	$ 212,693	A, D
VEGA Administration	989,434	545,521			
TOTAL ESTIMATED AMOUNT	20,874,463	11,900,378	40,028	212,693	
Balance	$ (235,611)	$ -			7

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

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement Number AID-306-A-14-00010 for the Capacity Building and Change Management Program II for the period January 01, 2016 to July 9, 2017. Because the Statement presents only a selected portion of the operations of the Volunteers for Economic Growth Alliance, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Volunteers for Economic Growth Alliance. 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 Cooperative Agreement Number AID-306-A-14-00010. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

The Statement was prepared in accordance with the requirements specified by SIGAR and presents those expenditures as permitted under the terms of Cooperative Agreement Number AID-306-A-14-00010, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were not required.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which Volunteers for Economic Growth Alliance is entitled to receive from the United States Agency for International Development for allowable, eligible costs incurred under the Cooperative Agreement Number AID-306-A-14-00010 during the period of performance.

Note 5. Revenue Recognition

Revenue Recognition whenever the expenses are reimbursed to Volunteers for Economic Growth Alliance.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved contract budget adopted as a component of the Modification #6 to the contract dated fully executed as of October 20, 2016.

Note 7. Balance

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

(Continued)

Note 8. Currency

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

Note 9. Subrecipients (or Grants-Under-Contract)

International Executive Service Corporations implemented the cooperative agreement and incurred all direct costs during the period.

Note 10. Program Status

The Capacity Building and Change Management program is completed. The period of performance for the contract was concluded on July 9, 2017 as noted in modification number 7 dated December 22, 2016. Final NICRA rates have not been approved. Reported amounts use provisional rates. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of the final NICRA.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the July 9, 2017, period covered by the Statement. Management has performed their analysis through DATE.

Note 12. Cessation of Business

The Company ceased normal operations except routine corporate administrative functions and administration of remaining non-operating assets as of December 31, 2018. The company is in process of liquidation and expects to dissolve in 2019. The dissolution of the company does not have an effect on the amounts reported or disclosures in the special purpose financial statement.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT[1]

Note A. Unsupported Expenses on Vendor Invoices (Unsupported Cost)
Finding 2018-04 questioned $116,370.90 in unsupported costs for seven transactions where VEGA and IESC did not provide adequate supporting documentation to demonstrate that costs incurred and recorded to the project ledger were allowable.

Note B. Improper Application of NICRA Base (Ineligible Cost)
Finding 2018-05 questioned $39,885.84 in costs for administrative costs where the indirect rate was applied to contracts and grants in excess of the first $25,000 as stated in the base of application in IESC's NICRA.
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Note C. Expense Outside Period of Performance (Ineligible Cost)
Finding 2018-06 questioned $142.00 for costs charged to the contract for an expense billed by IESC to VEGA that was incurred prior to the award start date.

Note D. Missing Proof of Payment (Unsupported Cost)
Finding 2018-07 questioned $96,321.62 in costs incurred where Crowe was unable to obtain evidence of payment for four transactions tested.

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

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management of
Volunteers for Economic Growth Alliance
734 15th Street NW Suite 1100
Washington, DC 20005

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

We were engaged to audit, 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 Volunteers for Economic Growth Alliance ("VEGA"), and related notes to the Statement, with respect to the Capacity Building and Change Management Program - II, funded by Cooperative Agreement Number AID-306-A-14-00010, for the period January 1, 2016 through July 9, 2017. We have issued our report thereon dated June 28, 2019, within which we have disclaimed an opinion because management did not provide an executed representation letter, thereby resulting in our being unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

Internal Control over Financial Reporting

VEGA's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation and accounting described in Note 1 and Note 2 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 connection with our engagement to audit the Statement for the period January 1, 2016 through July 9, 2017, we considered VEGA's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of VEGA's internal control. Accordingly, we do not express an opinion on the effectiveness of VEGA's 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 seven deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2018-01, 2018-03, 2018-04, 2018-05, 2018-06, and 2018-07 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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

VEGA's Response to the Findings

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

Crowe LLP

Crowe LLP

June 28, 2019
Washington, D.C.

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of
Volunteers for Economic Growth Alliance
734 15th Street NW Suite 1100
Washington, DC 20005

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

We were engaged to audit, 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 Volunteers for Economic Growth Alliance ("VEGA"), and related notes to the Statement, with respect to the Capacity Building and Change Management Program - II, funded by Cooperative Agreement Number AID-306-A-14-00010, for the period January 1, 2016 through July 9, 2017. We have issued our report thereon dated June 28, 2019, within which we have disclaimed an opinion because management did not provide an executed representation letter, thereby resulting in our being unable to obtain sufficient, appropriate audit evidence to conclude that the Statement is free of material misstatement.

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 VEGA.

Compliance and Other Matters

In connection with our engagement to audit the Statement of VEGA, 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 five instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-03, 2018-04, 2018-05, 2018-06, and 2018-07 in the accompanying Schedule of Findings and Questioned Costs. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the Statement, other instances of noncompliance or other matters may have been identified and reported herein.

VEGA's Response to the Findings

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

Crowe LLP

Crowe LLP

June 28, 2019
Washington, D.C.

Finding 2018-01: Cash Advance Drawdown Missing Approvals

Material Weakness

Condition: During Crowe's internal control testing of all cash advance drawdowns during the audit period, we were unable to verify that the Managing Director, Finance & Administration or his/her designate approved requests for advance drawdown on the Federal Reserve Line of Credit ("FRLC"). VEGA indicated written approvals were not required.

Criteria: VEGA's Governance, Human Resources, and Finance Policy and Procedures Manual, file titled "Member Invoice and How to Review Invoices" states in Section IV, subsection B.4.:

> VEGA makes withdrawals as needed to reimburse implementers for expenses incurred. If the project is to be administered under advance system and the nature of VEGA business that requires the advance is more of the 30 days outlay requirement, a request or a notification should be submitted to the program donor. Upon receipt of the funds from the Federal Reserve Line of Credit (FRLC), VEGA will immediately send out the reimbursement or the advance to implementers to minimize the elapsed time.
>
> Withdrawals are made from FRLC through OMB Payment Management System (PMS). Requests for drawdown through PMS from USAID are received the following day. Requests are prepared by the Assistant Controller using a spreadsheet calculating current cash balances for each award funded by the FRLC and allows the preparer to input additional cash needs. **The Managing Director, Finance & Administration or his/her designate approves the request.** After the request is processed, a receipt is printed detailing the amounts drawn by award. Periodic reconciliations are performed comparing PMS balance reports with the posted receipts in the general ledger.

Questioned Costs: None.

Effect: Failure to demonstrate appropriate supervisory review of cash management activities, including advance drawdowns on the FRLOC could lead to incorrect amounts being drawn down.

Cause: VEGA did not have a step in their policy and procedure to retain auditable documentation of supervisory review and approval for cash management activities, including advance drawdowns on the FRLOC. Such review and approval should be substantiated by signature, electronic stamp, or some other documentable method.

Recommendation: Crowe recommends VEGA update their policy and procedures, requiring review and approvals for cash management activities, including advance drawdowns on the FRLOC be objectively documented. Additionally, documentation for review and approval should be maintained as part of federal contract system of records.

(Continued)

Finding 2018-02: Incorrect Documentation in Books and Records

Significant Deficiency

Condition: During Crowe's testing of 148 sample expenditures, three vendors were listed in the transaction description incorrectly. The correct vendor for each item was provided by IESC's accounting department and listed below. Once the correct vendor was established by IESC adequate support was provided for each item for allowable cost and activity testing.

Sample Item Number	Date	Vendor in Books/Records	Bill Amount	Vendor in Supporting Documentation
127	10/1/2016	Ferdowsi Stionery	$12,206.25	Dreshak Hotel
128	10/18/2016	CAR LTD	$40,597.81	Arizona Construction Company
129	10/11/2016	CCN 005 Arzoo Hashimi	$25,717.50	CAR LTD

Criteria: Annex C of VEGA's Governance, Human Resources, and Finance Policy and Procedures Manual "Sub-grant (subrecipient) Monitoring Plan" indicated for low-risk determinations:

1) Invoice Verification: Not required. Financial reporting frequency: Quarterly
2) Financial Report: Submission of Monthly Expense Summary for only
3) Financial Reporting Frequency: No greater than quarterly
4) Request successive annual audit to ensure no material findings
5) Funding Advances: Maximum of quarterly

2 CFR 200.331 (a)(2) *Requirements for pass-through entities* states "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.303 *Internal controls* states "The non-Federal Entity must: …(c) Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1) *Applicability* states… "The terms and conditions of Federal awards… flow down to subawards, to subrecipients, unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."

As such, 2 CFR 200.403 *Factors affecting allowability of costs*, 200.404 *Reasonable costs*, and 200.405 *Allocable costs* apply to both recipients and subrecipients of a Federal award.

2 CFR 200 302(b)(3) *Financial management* states "Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."

Questioned Costs: None.

Effect: Incorrect documentation in the books and records of federal award expenditures can lead to misstatement to the awarding agency and in financial reporting records.

Cause: VEGA's Subrecipient monitoring did not include examination of detail transactions recorded in IESC's books and records. In addition, IESC's internal controls did not include a review of the documentation input into the books and records to supporting invoice documentation.

Recommendation: Crowe recommends VEGA's subrecipient monitoring include examination of detail transactions recorded in IESC's books and records and recommends IESC's internal controls include a review of transactional information contained in the books and records to supporting documentation.

(Continued)

Finding 2018-03: No Subrecipient Monitoring to Determine the Allowability of Costs and Activities

Material Weakness and Non-Compliance

Condition: During Crowe's initial meetings with VEGA, Crowe noted that although VEGA has subrecipient monitoring procedures and risk assessment policies, VEGA reported no formal monitoring over IESC who is the primary implementing partner for Cooperative Agreement Number AID-306-A-14-00010. All expenditures for this cooperative agreement are passed from VEGA to IESC, less VEGA's indirect costs. VEGA reported obtaining IESC's Single Audit reports, however management was unable to provide documentation for verification. Crowe also noted that VEGA did not perform expenditure testing for allowable cost or allowable activities or any other subrecipient monitoring activities.

Criteria: Annex C of VEGA's Governance, Human Resources, and Finance Policy and Procedures Manual "Sub-grant (subrecipient) Monitoring Plan" indicated for low-risk determinations:

1) Invoice Verification: Not required. Financial reporting frequency: Quarterly
2) Financial Report: Submission of Monthly Expense Summary for only
3) Financial Reporting Frequency: No greater than quarterly
4) Request successive annual audit to ensure no material findings
5) Funding Advances: Maximum of quarterly

2 CFR 200.331 (a)(2) *Requirements for pass-through entities* states "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.303 *Internal controls* states "The non-Federal Entity must: …(c) Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1) *Applicability* states… "The terms and conditions of Federal awards… flow down to subawards, to subrecipients, unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."
."

As such, 2 CFR 200.403 *Factors affecting allowability of costs*, 200.404 *Reasonable costs*, and 200.405 *Allocable costs* apply to both recipients and subrecipients of a Federal award.

Questioned Costs: None.

Effect: Items such as personnel, second-tier subrecipient monitoring, contractual services, travel and other direct costs are not monitored at a level as to ensure these items do not contain unallowable costs or are unallowable to the program. Therefore, expenditures reimbursed by the Federal Government to VEGA may not be for allowable costs or allowable activities.

Cause: VEGA did not implement sufficient subrecipient monitoring required to determine expenditures at the subrecipient level for were for allowable costs and allowable activities or that IESC's subrecipient monitoring procedures were appropriate. VEGA relied on IESC's Single Audit as their sole subrecipient monitoring activity for allowable costs and allowable activities.

Recommendation: Crowe recommends VEGA significantly increase their subrecipient monitoring activities as noted in Annex C for medium or high-risk activities and include testing of detail transactions for allowable costs and allowable activities under the cooperative agreement and federal regulations.

(Continued)

Finding 2018-04: Unsupported Expenses on Vendor Invoices

Material Weakness and Non-Compliance

Condition: VEGA did not provide adequate supporting documentation to demonstrate that costs incurred and recorded to the project ledger were allowable for seven of 148 sample transactions where invoiced amounts did not agree to supporting documentation.

Sample Item Number	Date	Bill Amount	Transaction Description	Auditor Comments	Questioned Costs
109	11/1/2016	$56,585.36	CBCMP-II Security Service in D	Supporting invoices were provided to Crowe, however timesheets to document the personnel's work performed were not provided.	$56,585.36
142	11/30/2016	$ 57,774.18	Invoice for November 2016 Secu	Supporting invoices were provided to Crowe, however timesheets to document the personnel's work performed were not provided.	$ 57,774.18
90	6/15/2017	$35,146.30	Edinburgh Risk Services May17	Timesheets obtained supporting the invoice had discrepancies related to hours billed vs. worked for Risk Coordinators, Drivers and Escorts resulting in overbillings.	$36.56
118	5/31/2016	$58,619.62	Edinburgh May16 Risk Mgmt. Svc	Timesheets obtained supporting the invoice had discrepancies related to hours billed vs. worked for Risk Coordinators, Drivers and Escorts resulting in overbillings.	$356.50
9	10/26/2016	$162.40	CCN 110 MATIULLAH NOORII	Vendor invoice for an individual's holiday pay was greater than the amount billed and the difference was unsupported.	$108.75
10	2/24/2016	$ 44.78	CCN 054 Qudratuallah Jahid	Taxi fare receipt is missing.	$58.68
37	1/16/2017	$1,107.28	LD Posting	Employee's pay included danger pay and post differential. The supporting offer letter provided by IESC to Crowe does not include danger pay or post differential. IESC provided a Personnel Action Form from November 29, 2010 which states the individual is "eligible for 35% danger pay and 35% post differential." However, the DCOP letter from July 21, 2014 excludes danger pay and post differential.	$1,450.87
Total Questioned Costs					**$116,370.90**

(Continued)

Finding 2018-04: Unsupported Expenses on Vendor Invoices (Continued)

Criteria:
2 CFR 200.331 ((a)(2) *Requirements for pass-through entities* states "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.303 *Internal controls* states "The non-Federal Entity must: …(c) Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1) *Applicability* states… "The terms and conditions of Federal awards… flow down to subawards, to subrecipients, unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."

As such, 2 CFR 200.403 *Factors affecting allowability of costs*, 200.404 *Reasonable costs*, and 200.405 *Allocable costs* apply to both recipients and subrecipients of a Federal award.

2 CFR 333 *Retention requirements for records* states in part: "Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient."

2 CFR 200.403 *Factors affecting allowability of costs* states "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards :…(g) Be adequately documented."

Questioned Costs: $116,370.90 in unsupported costs

Effect: The Government may have been charged for unallowable, unreasonable, or improperly allocated costs.

Cause: VEGA's subrecipient monitoring procedures did not include reviewing detailed transactions of expenses incurred by IESC. IESC did not have adequate procedures in place to ensure retention of supporting documentation for all transactions.

Recommendation: Crowe recommends VEGA include testing of detail transactions for allowable costs and allowable activities under the cooperative agreement and federal regulations during performance of subrecipient monitoring. Crowe further recommends VEGA either locate supporting documentation that demonstrates the costs recorded to the project account are allowable or reimburse the Government $116,368.90. Crowe also recommends VEGA instruct IESC to establish policies and procedures and require training to retain records for its Afghanistan-related programs in accordance with 2 CFR 200 "Uniform Guidance" and to prevent future lost documentation occurrences.

(Continued)

Finding 2018-05: Improper Application of NICRA Base

Material Weakness and Non-Compliance

Condition: During Crowe's testing of costs incurred under the cooperative agreement, we noted three sample transactions (numbers 105, 110 and 111) were for administrative costs where the G&A was applied to contracts and grants in excess of the first $25,000 as stated in the base of application in IESC's NICRA. IESC's accounting department used offsetting entries in the general ledger to reverse the over application of the NICRA before invoices were produced. However, Crowe was unable to identify the offsetting entry or found an error with the offsetting within IESC's invoice detail submitted to VEGA (and further billed by VEGA to the Government) for these three entries.

Criteria: 2 CFR 200.331 (a)(2) *Requirements for pass-through entities* states "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.303 *Internal controls* states "The non-Federal Entity must: …(c) Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1) *Applicability* states… "The terms and conditions of Federal awards… flow down to subawards, to subrecipients, unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."
."

As such, 2 CFR 200.403 *Factors affecting allowability of costs*, 200.404 *Reasonable costs*, and 200.405 *Allocable costs* apply to both recipients and subrecipients of a Federal award.

2 CFR 200.403 *Factors affecting allowability of costs* states: "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items."

2 CFR 200.68 *Modified Total Direct Cost (MTDC)* states: "MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs."

Questioned Costs: $39,885.84 ineligible costs

Effect: VEGA billed the Government for costs not allowed pursuant to the terms and conditions of the cooperative agreement.

Cause: VEGA's subrecipient monitoring procedures did not include reviewing detailed transactions of expenses incurred by IESC. IESC did not cap their permitted NICRA pursuant to the base of application as allowed in the cooperative agreement. IESC's manual reversal of the NICRA application was not adequate to remove the overbilled NICRA.

(Continued)

Finding 2018-05: Improper Application of NICRA Base (Continued)

Recommendation: Crowe recommends VEGA review the application of NICRA rates and bases during performance of subrecipient monitoring. Crowe recommends IESC cap the application of their NICRA to the base permitted in the cooperative agreement or further adjusted under any provisional/final NICRA rates and bases. Crowe also recommends IESC perform a full analysis of NICRA applications on all federal awards and credit the Government for over applications of the NICRA. In addition, VEGA or IESC should reimburse the Government $39,885.84.

(Continued)

Finding 2018-06: Expense Outside Period of Performance

Material Weakness and Non-Compliance

Condition: During Crowe's testing of costs incurred under the cooperative agreement, we noted one sample transaction (number 93) where supporting documentation for the expense billed by IESC to VEGA (and further billed by VEGA to the Government) was found to have been incurred prior to the award start date. The expense was supported by a receipt dated March 4, 2013 for passport services of $142. The award start date was July 10, 2014.

Criteria: 2 CFR 200.331 (a)(2) *Requirements for pass-through entities* states "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.303 *Internal controls* states "The non-Federal Entity must: …(c) Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1) *Applicability* states… "The terms and conditions of Federal awards… flow down to subawards, to subrecipients, unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."

As such, 2 CFR 200.403 *Factors affecting allowability of costs*, 200.404 *Reasonable costs*, and 200.405 *Allocable costs* apply to both recipients and subrecipients of a Federal award.

2 CFR 200.309 *Period of performance* states: "A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity."

Questioned Costs: $142.00 ineligible costs

Effect: The Government was improperly charged for ineligible items.

Cause: VEGA's subrecipient monitoring procedures did not include reviewing detailed transactions of expenses incurred by IESC. IESC did not apply the expenditure to the correct federal award.

Recommendation: Crowe recommends VEGA include testing of detail transactions for allowable costs and allowable activities under the cooperative agreement and federal regulations during performance of subrecipient monitoring. Crowe also recommends IESC or VEGA reimburse the government for $142 or otherwise produce documentation indicating that the expense was properly incurred during the period of the award.

(Continued)

Finding 2018-07: Missing Proof of Payment

Material Weakness and Non-Compliance

Condition: During Crowe's testing of allowable costs and allowable activities at IESC, Crowe was unable to obtain evidence of payment for the transactions tested and referenced below. IESC provided a Fund Transfer Application (an internal document), however IESC was unable to provide confirmation of the payment of the fund transfer via third-party evidence such as a wire transfer confirmation or a bank statement that encompassed the referenced date of disbursement. This lack of documentation lead to $96,321.62 in questioned costs

Sample Item Number	Description	Bill Amount	Applicable NICRA	Total Questioned Costs
67	Q-Kabul	$28,450.00	$8,828.04	$37,278.04
69	CAR LTD	$6,605.25	$2,049.61	$8,654.86
70	CAR LTD	$14,275.87	$4,429.80	$18,705.67
86	DRESHAK HOTEL SERVICES	$24,180.00	$7,503.05	$31,683.05
Totals		**$73,511.12**	**$22,810.50**	**$96,321.62**

Criteria: 2 CFR 200.331 (a)(2) *Requirements for pass-through entities* states "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.303 *Internal controls* states "The non-Federal Entity must: …(c) Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1) *Applicability* states… "The terms and conditions of Federal awards… flow down to subawards, to subrecipients, unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."

As such, 2 CFR 200.403 *Factors affecting allowability of costs*, 200.404 *Reasonable costs*, and 200.405 *Allocable costs* apply to both recipients and subrecipients of a Federal award.

2 CFR 200.333 *Retention requirements for records* states in part: "Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient."

2 CFR 200.403 *Factors affecting allowability of costs* states, "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:… (g) Be adequately documented."

(Continued)

Finding 2018-07: Missing Proof of Payment (Continued)

Questioned Costs: $96,321.62 in unsupported costs

Effect: Expenses billed to the Government may not have been incurred.

Cause: VEGA's subrecipient monitoring procedures did not include reviewing detailed transactions of expenses incurred by IESC. IESC did not have adequate procedures in place to ensure retention of supporting documentation supporting proof of payment.

Recommendation: Crowe also recommends VEGA include testing of detail transactions proof of payment during performance of subrecipient monitoring. Crowe also recommends VEGA or IESC either locate supporting documentation that demonstrates the costs recorded to the project account were incurred and paid.

SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Through discussion with VEGA, SIGAR, and representatives of the United States Agency for International Development three prior audits, reviews, or assessments were identified. We conducted a review of each report noted below to identify matters that may be direct and material to the SPFS under audit.

- SIAGR Report No. 8-306-17-003-N performed by CohnReznick LLP, *"Financial Audit of Costs Incurred by Volunteers for Economic Growth Alliance (VEGA) for Afghanistan, under the Capacity Building and Change Management Program-II (CMBCP-II), Associate Cooperative Agreement AID-306-A-14-00010, for the period from January 1 2015, to December 31, 2015"* dated March 9, 2017;

- Audit of the *Financial Statements and Reports Required by the Uniform Guidance* performed by Calibre CPA Group, PLLC for the year ended December 31, 2016 dated July 26, 2017; and

- Audit of the *Financial Statements and Reports Required by the Uniform Guidance* performed by Calibre CPA Group, PLLC for the year ended December 31, 2017 dated August 10, 2018.

Based on Crowe's review, we noted that the CohnReznick LLP report indicated initial findings and questioned costs. CohnReznick provided VEGA with time to provide support for the questioned costs during fieldwork and draft report preparation. As they did not provide additional documentation until the draft report had been completed, CohnReznick included the finding in their draft report and presented the report to VEGA's management during the exit conference. At that time, VEGA provided a written response, which included support for the questioned costs. CohnReznick reviewed the written response and examined the additional documentation and noted that the documentation provided adequately supported the costs. Therefore, CohnReznick removed the findings and questioned costs from the Schedule of Costs Incurred leaving no final findings or questioned costs.

That final report and the two annual Single Audits did not report any significant deficiencies or material weaknesses in internal controls or compliance with applicable laws and regulations and/or contractual obligations. Additionally none of the reports identified any fraudulent or illegal acts that occurred, or were likely to have occurred, during the respective audit periods. Therefore Crowe noted there were no previous audit findings that required follow-up during the current audit.

APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS

The following pages contain management's responses to the draft audit report. Due to the volume of management's comments, specifically supporting documentation for IESC's responses, the narrative responses have been included herein; but, appendices have been provided directly to SIGAR for transmission to the United States Agency for International Development, as appropriate and necessary.

IESC's responses are included on the following pages.

Richard R. Garza, Interim CFO
International Executive Service Corps
1900 M St NW #500, Washington, DC 20036
Phone: 202-589-2600
www.iesc.org

June 14, 2019

To the Board of Directors and Management of
Volunteers for Economic Growth Alliance
734 15th Street NW
Suite 1100
Washington, DC 20005

The purpose of this letter is to provide you with the International Executive Service Corps' (IESC) management response to the seven findings identified by Crowe LLP in the course of their financial audit of costs incurred by VEGA under cooperative agreement number AID-306-A-14-00010. As IESC was the pre-approved sub-awardee implementing the award and the findings relate to costs incurred by IESC, IESC is in the best position to respond to the seven findings submitted by Crow LLP.

Finding 2018-1 Cash Advance Drawdown Missing Approvals

- Questioned Costs: None

Management Response: IESC accepts Crowe's recommendation and will review our policy and procedures to ensure proper documentation of review and approval of cash drawdowns is maintained.

Finding 2018-2 Incorrect Documentation in Books and Records

- Questioned Costs: None

Management Response: IESC accepts Crowe's recommendation and will review our policy and procedures to ensure that they include a "review of transactional information contained in the books and records to support documentation".

Finding 2018-3 No Subrecipient Monitoring to Determine the Allowability of Costs and Activities

- Questioned Costs: None

Management Response: IESC accepts Crowe's recommendation and will review our policy and procedures to ensure that with respect to subrecipient monitoring of medium-risk or *high-risk activities they include a "testing of detail transactions for allowable costs and allowable activities".*

Finding 2018-4 Unsupported Expenses on Vendor Invoices

- Questioned Costs: $116,370.90

Management Response: IESC accepts Crowe's recommendation that with respect to the $116,370.90 in unsupported costs, IESC will "locate supporting documentation [for the seven identified transactions] that demonstrates the costs recorded to the project are allowable". With this letter, IESC hereby submits the requested supporting documentation for sample items #109, #142, and #37 – See Appendix One. IESC agrees to reimburse the U.S. government $167.43.

Finding 2018-5 Improper Application of NICRA base

- Questioned Costs: $39,885.84 ineligible costs

Management Response: IESC continues to assert that NICRA was correctly applied during the period audited and that the costs questioned by Crowe are based on a misunderstanding of the records we provided. IESC believes that in all instances during the audited period NICRA was correctly applied only to subaward costs up to the $25,000 limit. We hereby submit further evidence and explanations – See Appendix Two.

IESC accepts Crowe's recommendation to review the "application of NICRA rates and bases" during the period audited, January 1, 2016 through July 9, 2017. IESC's review will take place following the issuance of a Final NICRA for the 2016 and 2017 periods. Based on that review and the true-up from Provisional to Final rates, IESC will refund any amounts due to the U.S. government, if applicable. IESC believes that it would be inappropriate to conduct the true-up until the new NICRA letter is received from USAID.

Finding 2018-6 Expense Outside Period of Performance

- Questioned Costs: $142.00 ineligible costs

Management Response: IESC accepts Crowe's recommendation to reimburse the U.S. government for $142.00.

Finding 2018-7 Missing Proof of Payment

- Questioned Costs: $96,321.62 in unsupported costs

Management Response: IESC accepts Crowe's recommendation that with respect to the $96,321.62 in unsupported costs, IESC will "locate supporting documentation [for the four

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identified transactions] that demonstrates the costs recorded to the project account were incurred and paid". With this letter, IESC hereby submits the requested supporting documentation – See Appendix Three.

Best Regards,

Richard R. Garza
Interim CFO

APPENDIX B: AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us") has reviewed the letter dated June 14, 2019, containing IESC's (herein after the "Auditee") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the Auditee. A rebuttal has been included in those instances where management disagreed with the facts presented within the condition or otherwise did not concur with Crowe's recommendation. In those instances where management has either agreed with the finding or did not disagree with the facts in the finding, as presented, no rebuttal has been provided.

Finding 2018-04: Unsupported Expenses on Vendor Invoices

We reviewed the comments provided by the Auditee, which indicated the Auditee agreed with the finding. However, the Auditee disagreed with returning, all but $167.43 in funds to the government due to the Auditee locating additional documentation. The additional documentation submitted with management's response was not made available to Crowe during fieldwork, or after the exit conference on December 18, 2018 through January 11, 2019, the cutoff date for information to be provided to Crowe. Accordingly, the finding remains unchanged and the additional documentation with management's response will be forwarded to the funding agency for review by the Agreement Officer.

Finding 2018-05: Improper Application of NICRA Base

We have reviewed the comments provided by the Auditee, which indicated they disagree with the finding and that their application of the NICRA to the appropriate base is correct. The Auditee disagreed with returning any funds to the government due to the Auditee providing additional documentation on their application of the NICRA base. Furthermore, the Auditee indicated they agreed with Crowe's recommendation to review the NICRA base, however they indicated this review would not be performed until the final NICRA rates are received from USAID. The additional documentation submitted with management's response was not made available to Crowe during fieldwork, or to Crowe after the exit conference on December 18, 2018 through January 11, 2019, the cutoff date for information to be provided to Crowe. In addition, Crowe does not believe a delay issuing our final report is necessary due to the lack of finalization of the Auditee's NICRA rates. Accordingly, the finding remains unchanged and the additional documentation with management's response will be forwarded to the funding agency for review by the Agreement Officer.

Finding 2018-07: Missing Proof of Payment

We reviewed the comments provided by the Auditee, which indicated the Auditee agreed with the finding. The Auditee disagreed with returning any funds to the government due to the Auditee locating additional documentation. The additional documentation submitted with management's response was not made available to Crowe during fieldwork, or to Crowe after the exit conference on December 18, 2018 through January 11, 2019, the cutoff date for information to be provided to Crowe. Accordingly, the finding remains unchanged and the additional documentation with management's response will be forwarded to the funding agency for review by the Agreement Officer.

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- Phone International: +1-866-329-8893
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