

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-04 Financial Audit

Department of State's Demining and Munitions
Clearance Projects in Afghanistan: Audit of Costs
Incurred by the Demining Agency for Afghanistan



OCTOBER
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

Between 2013 and 2019, the Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) awarded nine grants worth a total of \$9,843,000 to the Demining Agency for Afghanistan (DAFA) to support various demining and munitions clearance projects throughout Afghanistan. State issued the first grant on March 15, 2013, and the period of performance for the last grant ended on September 24, 2019. There were 29 modifications made to the grants, increasing the total approved budget to \$17,010,146 and extending the period of performance for 6 of the 9 grants.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$15,882,954 of costs incurred from March 15, 2013, through September 24, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DAFA's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DAFA has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAFA's Special Purpose Financial Statement (SPFS). See Conrad'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 Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

October 2019

Department of State Demining and Munitions Projects in Afghanistan: Audit of Costs Incurred by the Demining Agency for Afghanistan

SIGAR 20-04-FA

WHAT SIGAR FOUND

Conrad identified three internal control deficiencies, including two significant deficiencies, and three instances of noncompliance with the terms of the grants and applicable laws and regulations. Conrad found several instances when DAFA paid employee salaries, goods, and services with cash instead of bank transfers without sufficient justification, as required by DAFA's finance policy. In addition, Conrad found that DAFA provided employees with items such as blankets, uniforms, shoes, and coats but did not have sufficient documentation demonstrating that employees received the items.

In addition, Conrad found DAFA charged items to the grants that were not approved by State. Conrad also noted DAFA used rates that exceeded the authorized rate as approved in the budget. Conrad also identified instances when DAFA did not withhold taxes from vendors whose invoices exceeded a set annual threshold, as required by Afghan tax law.

Because of these internal control deficiencies and instances of noncompliance, Conrad identified \$19,194 in questioned costs, consisting of \$1,357 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval, and \$17,837 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel	\$5,769	\$604	\$6,373
Equipment	\$176	\$753	\$929
Supplies	\$565	\$0	\$565
Contractual	\$937	\$0	\$937
Other Operating Costs	\$5,288	\$0	\$5,288
Indirect Charges	\$5,102	\$0	\$5,102
Totals	\$17,837	\$1,357	\$19,194

Conrad reviewed eight prior audits pertaining to the grants under audit and identified four prior findings. After reviewing corrective actions and discussion with DAFA management, Conrad concluded that the agency did not take adequate corrective action on one of the four prior findings. Conrad issued a unmodified opinion on DAFA's SPFS, noting that it presents fairly, in all material respects, revenues received, and costs incurred and reimbursed for the period indicated.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible grant officer at State's PM/WRA:

1. Determine the allowability of and recover, as appropriate, \$19,194 in questioned costs identified in the report.
2. Advise DAFA to address the report's three internal control findings.
3. Advise DAFA to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 15, 2019

The Honorable Michael R. Pompeo
Secretary of State

The Honorable R. Clarke Cooper
Assistant Secretary for Political-Military Affairs

Ambassador John R. Bass
Ambassador to Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by the Demining Agency for Afghanistan (DAFA) under Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) grants to support various demining and munitions clearance projects throughout Afghanistan.¹ Conrad reviewed \$15,882,954 of costs incurred from March 15, 2013, through September 24, 2018. Our contract with Conrad 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 the audit, SIGAR recommends that the responsible grant officer at State's PM/WRA :

- 1. Determine the allowability of and recover, as appropriate, \$19,194 in questioned costs identified in the report.**
- 2. Advise DAFA to address the report's three internal control findings.**
- 3. Advise DAFA to address the report's three noncompliance findings.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed Conrad'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 DAFA's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DAFA's internal control or compliance with the grants, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed therein. However, our review disclosed no instances in which Conrad 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-157)

¹ The nine grants are S-PMWRA-13-GR-1008, S-PMWRA-13-GR-1010, S-PMWRA-13-GR-1024, S-PMWRA-15-GR-1010, S-PMWRA-16-GR-1004, S-PMWRA-17-GR-1002, S-PMWRA-17-GR-1019, S-PMWRA-17-GR-1053, and S-PMWRA-17-GR-1062.

Demining Agency for Afghanistan (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

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August 15, 2019

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of the Demining Agency for Afghanistan's ("DAFA") Special Purpose Financial Statement ("SPFS") for costs incurred under nine grants ("Grants") awarded by the Department of State ("State"), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") for the period March 15, 2013 through September 24, 2018, supporting various Demining and Munitions Clearance Projects throughout Afghanistan.

On May 17, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. DAFA received a copy of the report on July 10, 2019 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and DAFA. DAFA's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you, and to conduct the audit of these DAFA grants.

Sincerely,

A handwritten signature in blue ink that reads "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

Background

Between 2013 and 2019, the Department of State (“State”), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (“PM/WRA”) awarded nine grants (“Grants”) to the Demining Agency for Afghanistan (“DAFA”). The purpose of these grants was to support various demining and munitions clearance projects throughout Afghanistan. Specifically, DAFA was tasked with the following principal objectives:

1. To provide a safe environment for Afghan habitants and returnees in urban and rural areas; by providing facilities for the return of internally displaced people to their hometown, and the normalization of local socio-economic conditions to pave the way for repatriation, resettlement, and rehabilitation of the country.
2. To contribute to peace building and development with the clearance of high priority areas. These activities make a more secure environment, thereby allowing the communities’ inhabitants to live and work in a safer and conducive environment.
3. To remove hazards from target areas through mine clearance and to ensure long-term success by eradicating the landmine threat from the planned areas. To contribute to increasing economic growth which will further the agricultural livestock rearing incomes in the area.
4. To assist the government and people of Afghanistan by clearing explosive contamination from villages promoting the free movement of people, safety, economical changes, social connections, agricultural activities, grazing, construction and so forth.
5. To remove landmines endangering the lives of thousands of people and to provide a safe land for agricultural development.
6. To enhance civilian security, and protect lives and limbs, with the removal and destruction of hazards in the project areas by cluster munitions clearance teams and returning land and infrastructure to productive use.

DAFA is one of the Humanitarian Mine Clearance Non-Government Organizations formed under the United Nation Office for the coordination of Humanitarian Assistance to Afghanistan in June 1990. DAFA is a major and well-known organization in the field of mine action in Afghanistan.

The Grants were issued starting March 15, 2013 and ending September 24, 2019 with an initial total estimated budget of \$9,843,000. Twenty-nine modifications were made increasing the total approved budget to \$17,010,146 and extending the period of performance on six close-out Grants. See Summary of Grants below:

DEMING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
 Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
 Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

Summary of Grants

Grant Number	Original			No. of Modifications	As Modified	
	Cost (\$)	Start	End		Cost (\$)	End
S-PMWRA-13-GR-1008*	\$1,500,000	3/15/2013	12/15/2013	9	\$3,500,000	9/30/2016
S-PMWRA-13-GR-1010*	1,000,000	4/1/2013	3/31/2014	9	3,000,000	3/31/2017
S-PMWRA-13-GR-1024*	1,000,000	5/1/2013	3/31/2014	6	3,000,000	5/15/2017
S-PMWRA-15-GR-1010	1,323,000	12/22/2014	9/30/2015	1	No Change	No Change
S-PMWRA-16-GR-1004*	1,690,000	12/2/2015	9/30/2016	1	No Change	11/30/2016
S-PMWRA-17-GR-1002*	1,000,000	1/6/2017	9/30/2017	1	No Change	10/31/2017
S-PMWRA-17-GR-1019	1,000,000	4/4/2017	3/31/2018	None	No Change	No Change
S-PMWRA-17-GR-1053*	330,000	10/1/2017	2/28/2018	1	No Change	5/15/2018
S-PMWRA-17-GR-1062*	\$1,000,000	9/25/2017	9/24/2019	1	\$ 2,167,146	No Change
Total:	\$9,843,000				\$17,010,146	

* Indicates the grant was modified.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

Work Performed

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the Demining Agency for Afghanistan's (DAFA) Special Purpose Financial Statement (SPFS) for costs incurred under nine grants awarded by PM/WRA totaling \$15,882,954 for the period March 15, 2013 through September 24, 2018.

A summary of the program to be audited is as follows:

Grant No.	Grant Period		Audit Period		Audit Amount
	Start	End	Start	End	Cost (\$)
S-PMWRA-13-GR-1008	3/15/2013	9/30/2016	3/15/2013	9/30/2016**	\$3,500,000
S-PMWRA-13-GR-1010	4/1/2013	3/31/2017	4/1/2013	3/31/2017**	3,000,000
S-PMWRA-13-GR-1024	5/1/2013	5/15/2017	5/1/2013	5/15/2017**	3,000,000
S-PMWRA-15-GR-1010	12/22/2014	9/30/2015	12/22/2014	9/30/2015**	1,323,000
S-PMWRA-16-GR-1004	12/2/2015	11/30/2016	12/2/2015	11/30/2016**	1,690,000
S-PMWRA-17-GR-1002	1/6/2017	10/31/2017	1/6/2017	10/31/2017**	1,000,000
S-PMWRA-17-GR-1019	4/4/2017	3/31/2018	4/4/2017	3/31/2018**	1,000,000
S-PMWRA-17-GR-1053	10/1/2017	5/15/2018	10/1/2017	5/15/2018**	330,000
S-PMWRA-17-GR-1062	9/25/2017	9/24/2019	9/25/2017	9/24/2018	1,039,954
Total:					\$15,882,954

** - Close-out Grant

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement ("SPFS")* – Express an opinion on whether DAFA's SPFS for the Grants presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity

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DEMING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

with the terms of the Grants and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain sufficient understanding of DAFA's internal controls related to the Grants, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether DAFA complied, in all material respects, with the Grants' requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether DAFA has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period March 15, 2013 through September 24, 2018 totaling \$15,882,954 under the Grants. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in each of the Grants and subsequent applicable modifications.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on January 24, 2019. Participants included representatives of Conrad, DAFA, SIGAR, and PM/WRA.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of DAFA;
- Reviewed the Grants and all modifications;
- Reviewed specific State regulations that are applicable to the Grants;

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. Based on our approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high to medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Grants, 2 CFR 600 and applicable 2 CFR 200, and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.
 - High risk cost categories – sample transactions that are greater than \$79,400 not to exceed 30% of the total amount expended for each cost category.
 - Medium risk cost categories – sample transactions that are greater than \$158,800 not to exceed 20% of the total amount expended for each cost category.
 - Low risk cost categories – sample transactions that are greater than \$158,800 not to exceed 10% of the total amount expended for each cost category, and not to exceed 50 transactions in total for all accounts comprising low risk categories.

Internal Controls Related to the Grants

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

Compliance with the Grants' Requirements and Applicable Laws and Regulations

We performed tests to determine whether DAFA complied, in all material respects, with the Grants' requirements and applicable laws and regulations; and identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested from DAFA, as well as conducted a search online to various governmental websites including SIGAR, State and other federal agencies, for all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

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

Exit Conference

An exit conference was held on May 9, 2019 via conference call. Participants included representatives from Conrad, DAFA, SIGAR, and PM/WRA. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Our audit of the costs incurred by DAFA under the Grants with PM/WRA identified the following matters. Findings are classified as internal control, compliance, or a combination of internal control and compliance.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the Special Purpose Financial Statement on the fairness of the presentation of the SPFS.

We identified \$19,194 in total questioned costs because they were either ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited 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.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
 Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
 Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

Summary of Findings and Questioned Costs

The four findings listed below are categorized as either internal control deficiency and/or noncompliance, and if both were present, they were combined into one finding. Also, internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact to DAFA's SPFS.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2019-01	Internal Control – significant deficiency	Lacked evidence to demonstrate adherence to DAFA's employee and vendor cash payment policy and need improvement in cash payment documentation process			\$0
2019-02	Non-compliance and Internal Control – deficiency	Lacked evidence to support the adequacy of cost incurred.		\$1,357	\$1,357
2019-03	Non-compliance and Internal Control – significant deficiency	Ineligible costs claimed	\$17,837		\$19,194
2019-04	Non-compliance	Lacked adherence to Afghanistan Tax Laws			\$0
Total Questioned Costs			\$17,837	\$1,357	\$19,194

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

Internal Control Findings

Our audit discovered three internal control findings, one deficiency and two significant deficiencies. See Independent Auditor's Report on Internal Control on page 19. The complete management responses from DAFA to each of the internal control findings can be found in Appendix B to this report.

Compliance Findings

The results of our tests disclosed three instances of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 22. The complete management responses from DAFA to each of the compliance findings can be found in Appendix B to this report.

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.

Review of Prior Findings and Recommendations

We requested from DAFA, SIGAR and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to DAFA's activities. We identified eight prior audit reports conducted by various local Afghanistan Chartered Accounting firms on the eight grants that were closed-out as listed in the "**Summary of Grants**" section of this report. The reports had identified four prior findings that we believe could have material effect on the SPFS and other financial data significant to the audit objectives.

We have reviewed the corrective actions taken to address these four findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. Accordingly, we have concluded that DAFA did not take adequate corrective action on one of the prior findings but has taken adequate corrective actions on three of the four findings. See "Status of Prior Audit Findings" on page 35 for a detailed description of the prior findings and recommendations.

Summary of DAFA's Responses to Findings

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

- 2019-01: DAFA partially disagrees with the audit finding stating that payments made in cash to employees and vendors were due to electronic payments were not possible as these employees and vendors did not have bank account. However, DAFA had updated their policies and procedures to make future payment via electronic banking system for employees and for vendors that are over the \$250 cash payment threshold.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)

For the period March 15, 2013 through September 24, 2018

- 2019-02: DAFA partially disagrees with the audit finding stating that 1) for the missing personnel activity report (PAR), due to large population of PARs, it is possible that the PAR was misplaced. However, DAFA was able to provide field attendance report of this employee in their response, 2) for blankets and demining kits that were missing employee's acknowledgement form, since they were DAFA's properties, it does not require employee's acknowledgement. Also, for uniforms, DAFA agreed they could not locate the evidence of acknowledgement prior to end of fieldwork but was able to locate them after fieldwork.
- 2019-03: DAFA disagrees with the audit finding stating that many of the items questioned were either 1) normal expenses for the grants' operations, 2) the items were approved under a general budget category such as office equipment, office machinery, etc., 3) salary, rent, and utility rates over the approved budget rate were due to unexpected changes through the life of the grants; and 4) some of the items in indirect costs were misclassified.
- 2019-04: DAFA agrees with the audit finding.

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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

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

Report on the Consolidated Special Purpose Financial Statement

We have audited the accompanying Consolidated Special Purpose Financial Statement of Demining Agency for Afghanistan ("DAFA") and the related notes to the Consolidated Special Purpose Financial Statement, with respect to nine grants, as listed in "**Summary of Grants**" of this report, for the period of March 15, 2013 through September 24, 2018.

Management's Responsibility for the Consolidated Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Consolidated Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Consolidated Special Purpose Financial 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 Consolidated Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Special Purpose Financial Statement is free from material misstatement, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing*

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Standards, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the DAFA's preparation and fair presentation of the Consolidated Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DAFA'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 Consolidated Special Purpose Financial Statement.

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

Opinion

In our opinion, the Consolidated Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by DAFA under the nine grants, as listed in "**Summary of Grants**" of this report, for the period March 15, 2013 through September 24, 2018, in accordance with the basis of accounting described in Note 2.

Basis of Presentation

We draw attention to Note 2 to the Consolidated Special Purpose Financial Statement, which describes the basis of presentation. The Consolidated Special Purpose Financial Statement was prepared by DAFA 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 grants, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the grants referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of Demining Agency for Afghanistan, the Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA), and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR, in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

(Continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 15, 2019 on our consideration of DAFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DAFA's internal control over financial reporting and compliance.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California
August 15, 2019

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Special Purpose Financial Statement (Consolidated)

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Nine grants (combined)	\$17,010,146	\$15,813,000	\$ -	\$ -	(3)
Total revenue:	\$17,010,146	\$15,813,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 7,200,073	\$ 6,728,782	\$ 5,769	\$ 604	(A)
Fringe benefits	2,930,431	2,580,821	-	-	
Travel	290,729	285,974	-	-	
Equipment	520,776	512,068	176	753	(B)
Supplies	442,224	409,681	565	-	(C)
Contractual	287,078	285,460	937	-	(D)
Other operating costs	3,913,517	3,719,450	5,288	-	(E)
Indirect charges	<u>1,425,318</u>	<u>1,360,718</u>	<u>5,102</u>	<u>-</u>	(F)
Total cost incurred	\$17,010,146	\$15,882,954	\$ 17,837	\$ 1,357	
Outstanding fund balance	\$ -	\$ (69,954)			(5)

Note: Individual SPFS is included in **Appendix A**

See Notes to the Special Purpose Financial Statement
And Notes to Questioned Costs Presented on the Special Purpose Financial Statement
(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Special Purpose Financial Statement¹

(1) Status and Operation

Demining Agency for Afghanistan (DAFA or Company) is one of the Humanitarian Mine Clearance Non-Government Organization formed under the auspices of United Nation Office for the Coordination of Humanitarian Assistance to Afghanistan (UNOCHA) in June 1990.

Its head office is located at Charahee Shaheed, Street No. 01, District No. 04, Kabul, Afghanistan with four field and project offices. DAFA currently managing a staff pool of 395 demining and support personnel structuring more than 27 demining teams, mostly located in the turbulent and extremely risky areas in East and South of Afghanistan.

DAFA is a major and well-known organization in the field of mine action in Afghanistan; DAFA is accredited for implementation of mine clearance projects by Directorate of Mine Action Coordination (DMAC) and registered with the Ministry of Economy of Islamic Republic of Afghanistan as a non-government organization (NGO).

Its main donor is the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (USDOS PM/WRA) and the United Nations.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (Statement) includes costs incurred under the nine grants for the Demining and Munitions projects for the period of March 15, 2013 through September 24, 2018. Because the Statement presents only a selected portion of the operations of the company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Demining Agency for Afghanistan. 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 Federal Grants within the audit scope. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Basis of Accounting

These special purpose financial statements have been prepared on modified accrual basis of accounting. On this basis grant income is recognized when received from the donor while expenses are recognized as expense when incurred rather than when paid. Expenditure amounts as presented under the terms of the Agreement. Such expenditures are recognized following the cost principles contained in 2 CFR 230, 22 CFR 145, and 2 CFR 200 Subpart E, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of DAFA.

Demining Agency for Afghanistan

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Special Purpose Financial Statement

(Continued)

Foreign Currency Conversion Method

Funds are received by DAFA in United States Dollars (USD) directly into DAFA's bank account. For purposes of preparing the Statement, conversions from local currency to USD were not required. DAFA maintains the funds in USD and does not have a local Afghani account. When local currency is needed, the required funds are converted from USD to local currency and the amount is recorded in USD using the actual exchange rate from the bank on the date of the conversion.

(3) Revenue

Revenues on the Statement represent the amount of funds which DAFA has received from the State for allowable, eligible costs incurred under the grants during the period of performance

(4) Costs Incurred by Budget Category

The budget categories and associated amounts presented reflect the budget line items presented within the final, approved contract budget adopted as a component of latest modification associated with each grant as of September 24, 2018.

(5) Outstanding Fund Balance

As of May 08, 2019, there was a \$69,954 USD outstanding fund balance under Grant S-PMWRA-17-GR-1062 as this project is going on and not yet completed, the revenue stated in the SPFS is prepared under the modified accrual basis of accounting.

(6) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the March 15, 2013 through September 24, 2018, period covered by the SPFS. Management has performed their analysis through August 15, 2019.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Notes to Questioned Costs Presented on the Consolidated Special Purpose Financial Statement²

(A) Personnel

DAFA reported a total personnel cost in the amount of \$6,728,782 for the period from March 15, 2013 through September 24, 2018.

During our audit of these costs, we noted:

- (1) A personnel activity report was not prepared by an employee, as required under the contract, which resulted in a total unsupported cost of \$604. See Finding No. 2019-02 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Salary rates for certain employees' position exceeded the proposed and approved rates, which resulted in a total ineligible cost of \$2,557. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.
- (3) Certain job positions were claimed as part of the Grants but these positions were not approved positions in the proposed and approved budget, which resulted in a total ineligible cost of \$3,212. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we questioned a total of \$604 in unsupported costs and \$5,769 in ineligible costs, which resulted in total questioned costs of \$6,373.

(B) Equipment

DAFA reported a total equipment cost in the amount of \$512,068 for the period from March 15, 2013 through September 24, 2018.

During our audit of these costs, we noted:

- (1) Goods, such as blankets, shoes, uniforms, and coats, provided to employees lacked employees' acknowledgement of receipt for these goods as required under DAFA retention policy. This resulted in a total unsupported cost of \$753. See Finding No. 2019-02 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Uniforms purchased exceeded the proposed and approved rates in the budget, which resulted in a total ineligible cost of \$176. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

² The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Questioned Costs Presented on Consolidated Special Purpose Financial Statement

(Continued)

As a result of these findings, we questioned a total of \$753 in unsupported costs and \$176 in ineligible costs, which resulted in total questioned costs of \$929.

(C) Supplies

DAFA reported a total supplies cost in the amount of \$409,681 for the period from March 15, 2013 through September 24, 2018.

During our audit of these costs, we noted:

- (1) Commission was paid to a money dealer for transferring of cash between suppliers and buyers, which is not an approved item in the proposed and approved budget, which resulted in a total ineligible cost of \$20. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Uniforms purchased exceeded the proposed and approved rates in the budget, which resulted in a total ineligible cost of \$195. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.
- (3) An electric generator was purchased and 100% charged to the project but was not an approved item in the proposed and approved budget, which resulted in a total ineligible cost of \$350. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we questioned a total of \$565 of ineligible cost, which resulted in a total questioned cost of \$565.

(D) Contractual

DAFA reported a total contractual cost in the amount of \$285,460 for the period from March 15, 2013 through September 24, 2018.

During our audit of these costs, we noted:

- (1) Commission was paid to money dealer for transferring of cash is not an approved item in the proposed and approved budget, which resulted in a total ineligible cost of \$252. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Questioned Costs Presented on Consolidated Special Purpose Financial Statement

(Continued)

- (2) Rent incurred exceeded the proposed and approved monthly rate in the budget, which resulted in a total ineligible cost of \$685. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we questioned a total of \$937 of ineligible cost.

(E) Other Direct Costs

DAFA reported a total other direct cost in the amount of \$3,719,450 for the period from March 15, 2013 through September 24, 2018.

During our audit of these costs, we noted:

- (1) Costs related to the Mine Action for International Women Day Celebration which is considered a social event was not an approved item in the proposed and approved budget. This resulted in a total ineligible cost of \$200. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Utilities incurred exceeded the proposed and approved monthly rates in the budget, which resulted in a total ineligible cost of \$1,240. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.
- (3) Cost of a rental machine and an accounting software for DAFA's accounting system was charged 100% to the project but was not an approved item in the proposed and approved budget, which resulted in a total ineligible cost of \$3,848. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we questioned a total of \$5,288 of ineligible cost.

(F) Indirect Costs

DAFA reported a total indirect cost in the amount of \$1,360,718 for the period from March 15, 2013 through September 24, 2018. In 5 out of the 9 grants, the indirect costs incurred exceeded the approved indirect cost rate approved in the budget, which resulted in a total ineligible cost of \$5,102. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

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 Consolidated Special Purpose Financial Statement (Statement) of Demining Agency for Afghanistan (“DAFA”) representing revenues received and costs incurred under nine grants, as listed in “**Summary of Grants**” of this report, awarded by the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) supporting various demining and munitions clearance projects throughout Afghanistan, for the period March 15, 2013 through September 24, 2018, and the related Notes to the Consolidated Special Purpose Financial Statement, and have issued our report thereon dated August 15, 2019, except as it relates to continuing education and peer review requirements as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Special Purpose Financial Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Internal Control over Financial Reporting

DAFA’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

(Continued)

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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 grants; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 2 to the Consolidated Special Purpose Financial 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 Consolidated Special Purpose Financial Statement of DAFA for the period March 15, 2013 through September 24, 2018, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Consolidated Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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. We identified one finding reported in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-02 which is considered to be deficiency.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify two deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-01 and 2019-03, which we consider to be significant deficiencies.

DAFA's Response to Findings

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

(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, and the result of that testing, and not to provide an opinion on the effectiveness of the DAFA'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 Demining Agency for Afghanistan, Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA), and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California
August 15, 2019

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

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 Consolidated Special Purpose Financial Statement (Statement) of Demining Agency for Afghanistan (DAFA) representing revenues received and costs incurred under nine grants, as listed in “**Summary of Grants**” of this report, awarded by the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) supporting various demining and munitions clearance projects throughout Afghanistan, for the period March 15, 2013 through September 24, 2018, and the related Notes to the Consolidated Special Purpose Financial Statement, and have issued our report thereon dated August 15, 2019, except as it relates to continuing education and peer review requirements as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Special Purpose Financial Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the grants and corresponding modifications are the responsibility of the management of DAFA.

(Continued)

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether DAFA's Consolidated Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Grants, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-02, 2019-03, and 2019-04.

DAFA's Response to Findings

DAFA's response to the findings identified in our audit is included verbatim in Appendix B. DAFA's response was not subjected to the auditing procedures applied in the audit of the Consolidated 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 internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of Demining Agency for Afghanistan, Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA), and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California
August 15, 2019

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period of March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

Finding 2019-01: DAFA lacked sufficient evidence to demonstrate adherence to DAFA's employee and vendor cash payment policy and needed improvement in cash payment documentation process.

Nature of Finding: Internal Control – Significant Deficiency

Condition: During our testing of DAFA's employee and vendor's cash payment process, we noted the following instances where DAFA did not provide sufficient evidence to demonstrate that it adhered to its cash payment policies and needed improvement on documenting its cash payment process:

- Conrad judgmentally select 1,760 of salary payments for testing of the cash payment process. We noted 720 instances where employees received their salary in cash rather than paid via bank transfer. In the source documentation provided by DAFA, there were no justifications as to why salary was paid in cash rather than paid via bank transfer.
- Conrad judgmentally selected 2,924 of cash payment transactions for goods and purchases paid under: Travel, Supplies, Equipment, Contractual, and Other Direct Costs (ODC). We noted 604 instances of purchase of goods or services that were paid in cash instead of electronic payment. In the source documentation provided by DAFA, there were no justifications as to why payments were made in cash rather than paid via bank transfer.

In accordance to DAFA's finance policy, all payments should be paid via bank transfer and cash payment should only be made where banking system is not available or there is a risk of security threat. Given the nature and hostile environment where DAFA operates, adequate controls should be in place to ensure payment via cash is the least desirable payment method and payment in cash to employees should be minimized to the extent possible in order to safeguard against misappropriation of cash.

Criteria: According to DAFA's Finance, Logistics, and Administration SOP, Section 1.2.6, subsection "Mode of all payments", states, in part:

"All payments must be made in bank transfer, Cheques, and cash. Cash payment can be made only where banking system is not available or there is security threats and risk. All salaries allowances, food items, fuel, repairs, rent of premises and vehicles and other purchases are transferred to sub offices (bank transfers) and payment is made by cash to concerned staff..."

2 CFR 200.302(b)(4), Financial Management System, states, in part:

"Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303 Internal controls..."

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

(Continued)

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

“The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award...”

Cause: DAFA stated that in many instances where payments were made in cash, the employees or vendors did not have bank accounts where electronic transfer of payments were practical. However, DAFA acknowledged that its policy did not require documentation of these justifications in the source document when payments were made which can be a weakness in management control and oversight.

Effect: DAFA lacked sufficient evidence to justify why payments made in cash increased the risk that payment could have been made via bank or electronic, rather than cash and DAFA did not follow its policy to minimize making payment in cash. This resulted in the risk of jeopardizing Federal funds and might be at risk of loss, theft, or embezzlement.

Questioned Costs: None

Recommendation:

- (1) We recommend DAFA modify its policy and procedure to document the reason why payments were made in cash rather than by bank transfer or check; and ensure, this is implemented by training appropriate personnel.
- (2) We recommend DAFA modify its policy to encourage the use of bank transfers whenever possible to minimize the risk of loss or theft of Federal funds.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

(Continued)

Finding 2019-02: DAFA lacked evidence to support the adequacy of costs incurred.

Nature of Finding: Non-Compliance; Internal Control – Deficiency: (Unsupported costs)

Condition: During our testing to determine if costs were adequately supported, we noted the following:

- Conrad judgmentally selected 1,760 timesheets for testing. In one instance, the personnel activity report (PAR), or timesheet, was not provided. This resulted in \$604 of questionable payroll costs.
- Conrad judgmentally selected 2,333 of transactions for Equipment, ODC, and Supplies Testing. In 30 instances, DAFA provided personnel items such as blankets, uniforms, shoes, and coats to its employees, but lacked employee's acknowledgement of receiving these goods, which totaled \$13,722.

Criteria: 2 CFR Part 200.430, Compensation – Personal Services, states, in part:

“(i) *Standard for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) Be incorporated into the official records of the non-Federal entity;...”

2 CFR 230, Appendix A, Basic Consideration, states, in part:

“2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles...
- g. Be adequately documented.

2 CFR 200.403 (Factors affecting allowability of costs) further states:

“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

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

...(g) Be adequately documented...”

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

(Continued)

DAFA's Standard Operating Procedure (SOP), Logistics and Procurements, Part II, Accounting Procedures, states, in part:

“General.

Store comprises of vast range of items varying in nature, structure and size. In day to day transaction, receipt and issue, losses and discrepancies, stores being DAFA property have to be accounted for...

ACCOUNTING OF STORES.

Stock Ledgers.

Separate ledgers for the following stores will be maintained by logistic officer/logistic assistant...

c. General stores including clothing, blankets, uniform etc. ...”

In addition, Annex H of the SOP, requires acknowledgement of receipts for goods received.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

(Continued)

Proper issue and receipt voucher will be used while making transactions. Specimen attached at Annex " H "

DAFA /LOGISTIC					
RECEIPT VOUCHER CHALLAN					
DATE OF RECEIPT.....			EC NO:.....		
RECEIVED FROM.....					
No	ITEM DESCRIPTION	QTY	VOUCHER NO/DATE	BIN CARD NO	REMARKS
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
HANDED OVER BY					RECEIVED BY:
NAME:.....					NAME:.....
DESCANATION					DESCANATION

DAFA's Retention Policy, Retention periods, states, in part:

“The following table illustrates the document type and its retention period...

17. Personnel Field Items Acknowledgment, 1 Year after closure..

21. Invoices (related to all sections), 5 years...

27. Payroll records and summaries including expense, 5 years after termination...”

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

(Continued)

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...”

Cause: DAFA could not locate either the PAR or documentation of the employees’ acknowledgement of the receipt of goods and provide this documentation to the auditors at the conclusion of the audit. DAFA did not properly retain records as in accordance with retention requirement in 2 CFR 200 /or DAFA’s owner its Retention Policy for the acknowledgement of goods received.

Effect: DAFA’s inability to provide the evidence of the PAR and acknowledgement from employees for goods received resulted in the risk that payroll costs charged to the grant might not have been incurred, and the employees might not have received the goods that were provided to them, respectively. This resulted in unsupported costs claimed.

Questioned Costs: The personnel, equipment, and supplies costs associated with these transactions total \$14,326. However, DAFA provided additional documentation to evidence some of the costs in questioned as stated in Appendix B and Appendix C. Based on further review of these additional evidence, the amount in questioned were reduced to \$1,357.

Recommendation:

- (1) We recommend DAFA either provides evidence to PM/WRA (a) showing that the employee in question did actually work during the period where the PAR was missing and (b) acknowledgement from employees for the goods received, or return \$1,357 of unsupported costs.
- (2) We recommend DAFA implement training for its staff to ensure they strictly adhere to the documentation retention requirements in the 2 CFR 200 and DAFA’s own retention policy.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period March 15, 2013 through September 24, 2018

Schedule of Findings and Questioned Costs

(Continued)

Finding 2019-03: DAFA Claimed Ineligible Items

Nature of Finding: Non-Compliance; Internal control – Significant Deficiency :(Ineligible Cost)

Condition: During our testing of Personnel, Supplies, Contractual, Equipment, Other Direct Costs, and Indirect Charges, we noted the following items were not included in the proposed budget details that was approved by the Department of State:

- In five instances, commissions were paid to property and money dealers for renting properties and cash transferring between buyers and suppliers, which totaled \$272.
- In one instance, cost associated with Mine Action for International Women’s Day Celebration was claimed totaling \$200.
- In one instance, a machine rental for demining purposes was charged which totaled \$2,500.
- In 13 instances, there were six job positions paid for that were not included in the proposed budget and there were seven more job positions paid for than what were authorized for that position which had a combined total of \$3,212.

In addition, we noted the following items were not approved in the budget and lacked evidence to demonstrate why the purchase was 100% charged to the grants.

- In 1 instance, a 4.5 KV Electric Generator was purchased for one of DAFA’s field offices and was 100% charged to a grant which totaled \$350.
- In 1 instance, an accounting software was purchased and charged 100% to a grant which totaled \$1,348.

Furthermore, during our testing, we noted the following where rates were claimed that exceeded the authorized rate as proposed and approved in the budget:

- In 51 instances, employees’ salary rate claimed exceeded the authorized pay rate that was proposed and approved which totaled \$2,557.
- In 17 instances, Rents, Utilities, Internets, Uniforms, etc. claimed exceeded the authorized rate that was proposed and approved which totaled \$2,296.
- In five of the grants tested, the indirect cost claimed exceeded the indirect cost rate approved which totaled \$5,102.

(Continued)

Demining Agency for Afghanistan (DAFA)

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Schedule of Findings and Questioned Costs

(Continued)

Criteria:

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

"Except where otherwise authorized...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 200.438, Entertainment costs, states:

"Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency."

2 CFR 200.405, Allocable Costs, states, in part:

"(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
 - (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principals in this subpart.

DAFA's Retention Policy, Retention periods, states, in part:

"The following table illustrates the document type and its retention period..."

17. Personnel Field Items Acknowledgment, 1 Year after closure..

21. Invoices (related to all sections), 5 years...

27. Payroll records and summaries including expense, 5 years after termination..."

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..."

(Continued)

Demining Agency for Afghanistan (DAFA)

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Schedule of Findings and Questioned Costs

(Continued)

Cause: This finding has three causes: 1) DAFA did not seek approval from the donor for the purchase of these items/increased rates; 2) DAFA did not document, or retain documentation, regarding what expenses were being paid for out of the general budget item fund; and 3) DAFA did not document, or retain documentation, related to the change in title of job positions and seek approval from donor for change in position.

Effect: Lack of approval from the donor for these items and what expense account covered the purchased items resulted in the risk that Federal funds might have been used to purchase items that were not allowable by the donor or unallowable. This resulted in ineligible costs been claimed.

Questioned Costs: The Personnel, Supplies, Contractual, Equipment, Other Direct Costs, and Indirect Charges in question totaled \$17,837.

Recommendation:

- (1) We recommend DAFA obtain approval from the Department of State for the items claimed to be allowable in the budget, or return \$17,837 of ineligible costs.
- (2) We recommend DAFA be more specific in their proposed budget and submit modification to the budget for future projects, and to include items and negotiated rates in the current budget that were not specifically stated so the donor is aware of special items that had been purchased.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Schedule of Findings and Questioned Costs

(Continued)

Finding 2019-04: DAFA did not Adhere to Afghanistan Tax Law

Nature of Finding: Non-Compliance

Condition: During our testing of Travel, Equipment, Supplies, Contractual, and Other Direct Costs, we noted in 213 instances where DAFA did not withhold taxes from supplier purchases or from landlord for rent as required by the Afghanistan Tax Law.

Criteria: According to the terms of the Grant Agreement, section 16, Additional Bureau/Post Specific Requirements, subsection p., states:

“All award recipients must comply with applicable local and national laws in the host countries in which this award is implemented.”

According to Article 59 of Afghanistan Tax Law, Rent withholding tax on buildings and houses, states, in part:

“(1) Payments of rent for buildings and houses which are rented to legal or natural persons and are used for business purposes or offices are subject to withholding tax as follows:

1. Where the monthly rent is from Afs. 10,000 to Afs.100,000 - ten (10) percent.
2. Where the monthly rent is more than Afs.100,000 – fifteen (15) percent.

(2) Tenants of buildings and houses mentioned in paragraph (1) of this Article shall be required to pay taxes according to the rulings issued by the Ministry of Finance.

(3) Tax collected under paragraph (1) of this Article shall be paid by the tenant in respect of the income tax liability of the landlord under this Law. This tax shall be treated as a prepayment of the tax liability of the landlord and shall be credited at the time of annual tax payment. In the event of a dispute about the amount of rent owed by a tenant, the tenant will be treated as having paid to the landlord as rent any tax that was paid to the relevant authorities under this Article....”

According to Article 72 of Afghanistan Tax law, Withholding tax on contractors, states:

(1) Persons who, without a business license or contrary to approved by- law, provide supplies, materials, construction and services under contract to government agencies, municipalities, state entities, private entities and other persons shall be subject to 7 percent fixed tax in lieu of income tax. This tax is withheld from the gross amount payable to the contractor.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Schedule of Findings and Questioned Costs

(Continued)

(2) Persons who have a business license and provide the services and other activities mentioned in paragraph (1) of this Article to the specified entities shall be subject to 2 percent contractor tax. The tax levied by this paragraph is creditable against subsequent tax liabilities.

(3) The tax mentioned in paragraph (1) and (2) of this Article shall be withheld by the payer from payment and shall be transferred to the relevant account within ten days. Contractors subject to this Article shall be required to, upon signing the contract, send a copy thereof to the relevant tax administration. Natural persons who, according to provision of paragraph (1) of Article 17 of this Law, earn taxable salaries shall be excluded from this provision.”

Cause: DAFA misinterpreted the Afghanistan Tax Law requirements and was under the impression that only single purchases or rent payment over Afs. 500,000 would require tax to be withheld.

Effect: Not withholding and reporting applicable local tax is a violation of the host countries tax law requirements which resulted in non-compliance with the Department of State mandated requirements in the terms of the Grants.

Questioned Costs: None

Recommendation:

- (1) We recommend DAFA to implement a policy and procedure to ensure it complies with all applicable local tax laws.
- (2) We recommend DAFA perform training with its staff to ensure tax are properly withheld and reported for all applicable purchases.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Status of Prior Audit Findings

We requested from DAFA, SIGAR and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to DAFA's activities. We had identified eight prior audit reports conducted by various local Afghanistan Chartered Accounting firms on the eight grants that were close-out as listed in the Review of Prior Findings and Recommendations section of this report. The reports had identified four prior findings that we believe could have material effect on the SPFS and other financial data significant to the audit objectives.

We have reviewed the corrective actions taken to address these four findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. The findings and status of corrective actions are listed below.

Report: Audited Financial Statement for DAFA's Project Title Zhari-Panjwai Community Based Demining Project, Grant No. S-PMWRA-13-GR-1008, for the Period: March 15, 2013 – September 2016.

Finding: DAFA did not deduct and withhold tax from suppliers/contractors as required by Afghanistan income tax law. The auditors recommended DAFA's compliance with all applicable taxation law of Afghanistan. No costs were questioned.

Status: DAFA stated they have started to withheld taxes on all applicable transactions since the finding was identified in 2014. However, no policy and procedures were implemented, nor additional training conducted to ensure DAFA will properly withheld tax on all applicable transactions. In addition, during our testing, we have still identified numerous transactions incurred after 2014 where taxes were not properly withheld. This Finding has not been properly corrected.

Report: Audited Financial Statement for DAFA's Project Title Baghlan Demining Project in Afghanistan, Grant No. S-PMWRA-15-GR-1010, for the Period: October 1, 2014 – September 30, 2015.

Finding: DAFA did not prepare Personnel Activity Report (PAR) as required by OMB A-122. The auditors recommended DAFA to implement controls to record after-the-fact effort reporting mechanism and maintain PAR for payroll costs charged to the project. No costs were questioned.

Status: DAFA stated that for salaried employees who are 100% dedicated to a specific project do not required PAR. For DAFA's headquarter employees who worked on multiple projects, DAFA has created an additional form for PAR where employees can properly track their time. We reviewed the PAR template that DAFA implemented during our onsite visit. During our testing, we noted one instance where the PAR

(Continued)

was not provided but appeared to be an isolated instance due to the PAR being misplaced. Therefore, this finding has been properly corrected and not repeated.

Finding: DAFA did not update their travel policy for top-up cards for mobile phones and local travelling. The auditors recommended the policy for employee local traveling and top-up cards in practice should be fully documented in the project manual. No costs were questioned.

Status: DAFA stated the Travel policy was documented in the Transport Standard of Operations (“SOP”) and just did not add it in their Administrative SOP as well. It has since been added to the Administrative SOP in 2017 when the issue was identified. We reviewed the Administrative SOP and noted that top-up cards were included in the SOP. We did not find this matter significant enough to have an impact to SPFS that is required to be a reportable condition. In addition, during our testing, we did not identify any issues regarding top-up card under travel. This finding has been properly corrected and not repeated.

Report: Audited Financial Statement for DAFA’s Project Title Road Demining Project of Kamal Khan Dam, Nimroz Afghanistan, Grant No. S-PMWRA-17-GR-1053, for the Period: October 1, 2017 – May 15, 2018.

Finding: Some suppliers’ invoices and quotations not addressed to DAFA. The auditors recommended all vendor’s invoices should be addressed to DAFA. No costs were questioned.

Status: DAFA stated it assigned a committee to oversee the processing of each purchase. DAFA stated that they tried their best to ensure all invoices were addressed to DAFA. However, for some minor and small purchases, mainly from rural areas, the invoices continued to be addressed in the name of a member on their purchase committee. Nonetheless, each purchase was supported with all required documents. During our onsite visit, we reviewed these invoices and noted that the payment was properly received by DAFA and adequately supported. In addition, during our testing, we did not identify any transactions that had vendor invoices addressed to a member of its purchasing committee. As such, we believed these were isolated instances and does not raise to a level of a finding in our audit report. Therefore, this finding has been properly corrected and not repeated.

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Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Special Purpose Financial Statement

Grant Number – S-PMWRA-13-GR-1008

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 3,500,000	\$ 3,500,000	\$ -	\$ -	
Total revenue:	\$ 3,500,000	\$ 3,500,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 1,584,239	\$ 1,587,049	\$ 1,791	\$ -	(A)
Fringe benefits	394,036	394,259	-	-	
Travel	37,621	39,173	-	-	
Equipment	112,463	108,251	-	-	(B)
Supplies	45,215	45,685	-	-	
Contractual	103,588	106,246	28	-	(D)
Other operating costs	900,704	896,570	1,348	-	(E)
Indirect charges	<u>322,134</u>	<u>322,767</u>	<u>697</u>	<u>-</u>	(F)
Total cost incurred	\$ 3,500,000	\$ 3,500,000	\$ 3,864	\$ -	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
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Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-13-GR-1010

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 3,000,000	\$ 3,000,000	\$ -	\$ -	
Total revenue:	\$ 3,000,000	\$ 3,000,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 1,234,595	\$ 1,231,360	\$ 805	\$ -	(A)
Fringe benefits	420,432	412,757	-	-	
Travel	80,680	80,328	-	-	
Equipment	134,507	132,331	176	-	(B)
Supplies	78,996	80,685	20	-	
Contractual	45,551	43,984	48	-	(D)
Other operating costs	774,678	788,684	-	-	
Indirect charges	<u>230,561</u>	<u>229,871</u>	<u>-</u>	<u>-</u>	
Total cost incurred	\$ 3,000,000	\$ 3,000,000	\$ 1,049	\$ -	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
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Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-13-GR-1024

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	
Total revenue:	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	
Cost incurred:					
Personnel	\$ 1,217,423	\$ 1,210,803	\$ 713	\$ -	(A)
Fringe benefits	460,788	461,764	-	-	
Travel	90,010	89,605	-	-	
Equipment	105,956	108,325	-	-	(B)
Supplies	93,576	95,253	-	-	
Contractual	39,596	42,238	58	-	(D)
Other operating costs	739,623	737,930	-	-	(E)
Indirect charges	<u>253,028</u>	<u>254,082</u>	<u>1,151</u>	<u>-</u>	(F)
Total cost incurred	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 1,922</u>	<u>\$ -</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
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Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-15-GR-1010

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 1,323,000	\$ 1,323,000	\$ -	\$ -	
Total revenue:	\$ 1,323,000	\$ 1,323,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 606,019	\$ 612,904	\$ 584	\$ -	(A)
Fringe benefits	287,158	274,780	-	-	
Travel	16,630	17,348	-	-	
Equipment	56,733	56,987	-	-	(B)
Supplies	16,730	18,095	-	-	
Contractual	17,412	17,603	-	-	
Other operating costs	202,054	206,450	-	-	
Indirect charges	<u>120,264</u>	<u>118,833</u>	<u>-</u>	<u>-</u>	
Total cost incurred	\$ 1,323,000	\$ 1,323,000	\$ 584	\$ -	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-16-GR-1004

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 1,690,000	\$ 1,690,000	\$ -	\$ -	
Total revenue:	\$ 1,690,000	\$ 1,690,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 764,517	\$ 763,312	\$ 183	\$ -	(A)
Fringe benefits	333,602	343,472	-	-	
Travel	20,009	20,937	-	-	
Equipment	83,006	84,251	-	753	(B)
Supplies	17,856	17,084	-	-	
Contractual	26,314	28,642	688	-	(D)
Other operating costs	291,060	276,773	210	-	(E)
Indirect charges	<u>153,636</u>	<u>155,529</u>	<u>2,081</u>	<u>-</u>	(F)
Total cost incurred	\$ 1,690,000	\$ 1,690,000	\$ 3,162	\$ 753	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-17-GR-1002

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	
Total revenue:	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 467,884	\$ 462,173	\$ 389	\$ -	(A)
Fringe benefits	112,906	121,142	-	-	
Travel	10,513	11,211	-	-	
Equipment	28,111	21,923	-	-	(B)
Supplies	9,290	10,064	-	-	
Contractual	22,824	23,132	-	-	
Other operating costs	262,654	265,113	2,500	-	(E)
Indirect charges	<u>85,818</u>	<u>85,242</u>	<u>-</u>	<u>-</u>	
Total cost incurred	\$ 1,000,000	\$ 1,000,000	\$ 2,889	\$ -	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-17-GR-1019

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	
Total revenue:	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 318,626	\$ 327,393	\$ 966	\$ -	(A)
Fringe benefits	222,250	211,974	-	-	
Travel	8,434	6,044	-	-	
Equipment	-	-	-	-	
Supplies	76,269	76,645	195	-	(C)
Contractual	9,879	10,599	-	-	
Other operating costs	292,178	294,664	-	-	
Indirect charges	<u>72,364</u>	<u>72,681</u>	<u>342</u>	<u>-</u>	(F)
Total cost incurred	\$ 1,000,000	\$ 1,000,000	\$ 1,503	\$ -	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-17-GR-1053

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 330,000	\$ 330,000	\$ -	\$ -	
Total revenue:	\$ 330,000	\$ 330,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 107,750	\$ 109,551	\$ -	\$ -	
Fringe benefits	73,450	70,105	-	-	
Travel	2,450	2,914	-	-	
Equipment	-	-	-	-	
Supplies	28,580	24,765	-	-	
Contractual	3,474	3,652	-	-	
Other operating costs	89,796	93,744	200	-	(E)
Indirect charges	<u>24,500</u>	<u>25,269</u>	<u>831</u>	-	(F)
Total cost incurred	\$ 330,000	\$ 330,000	\$ 1,031	\$ -	
Outstanding fund balance	\$ -	\$ -			

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-17-GR-1062

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Revenue:					
Revenue	\$ 2,167,146	\$ 970,000	\$ -	\$ -	
Total revenue:	\$ 2,167,146	\$ 970,000	\$ -	\$ -	
Cost incurred:					
Personnel	\$ 899,020	\$ 424,237	\$ 338	\$ 604	(A)
Fringe benefits	625,809	290,568	-	-	
Travel	24,382	18,414	-	-	
Equipment	-	-	-	-	
Supplies	75,712	41,405	350	-	(C)
Contractual	18,440	9,364	115	-	(D)
Other operating costs	360,770	159,522	1,030	-	(E)
Indirect charges	<u>163,013</u>	<u>96,444</u>	<u>-</u>	<u>-</u>	
Total cost incurred	\$ 2,167,146	\$ 1,039,954	\$ 1,833	\$ 604	
Outstanding fund balance	\$ -	\$ (69,954)			(5)

(Continued)

Demining Agency for Afghanistan

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

DAFA's Responses to the Audit Report

Included on the following pages is DAFA's responses received to the findings identified in this report.

(Continued)

Finding 2019-01: DAFA lacked sufficient evidence to demonstrate adherence to DAFA's employee and vendor cash payment policy and needed improvement in cash payment documentation process.

Nature of Finding: Internal Control – Significant Deficiency

Condition: During our testing of DAFA's employee and vendors cash payment process, we noted the following instances where DAFA did not provide sufficient evidence to demonstrate it adhered with its cash payment policies and needed improvement on documenting its cash payment process:

- Conrad judgmentally select 1,760 of salary payments for testing of the cash payment process. We noted 720 instances where employees received their salary in cash rather than paid via bank transfer. In the source documentation provided by DAFA, there were no justifications as to why salary was paid in cash rather than paid via bank transfer.

DAFA Response:

1. All most all of our projects are community-based projects. We hired the deminers, section leader, and other field employees from that community where we cleared hazardous. We completed these projects in very remote areas as mention follows,
 - i. Grant Number 13-GR-1010 in Mosa Qala District in Helmand province
 - ii. Grant Number 13-GR-1024 In Kajaki District of Helmand Province
 - iii. Grant Number 13-GR-1008 in Zhari District of Kandahar Province
 - iv. Grant Number 17-GR-1019 in Zhari District of Kandahar Province
 - v. Grant Number 17-GR-1053 in Charborjak District of Nimroz Province
 - vi. Grant Number 17-GR-1002 in Zhari District of Kandahar Province
 - vii. Grant Number 17-GR-1062 in Zarmat District of Paktya Province, Pacharagam District of Nangrahar province and Khwaja Ghar District of Takhar Province

All the above-mentioned Districts are far away from main city and provinces capitals and do not have any bank branch of any existed banks in Afghanistan.

2. All the deminers and other field staff do not have bank accounts.
3. if we instruct them to open the bank account in capital city of the province than it will take around 3-4 days to travel and withdraw their salaries which is not possible due to stoppages of work for such 3-4 days.

4. based on above reason we are compel to pay them salary in cash. However, for each cash salary payments we are created a:
 - i. separate committee of three employees to transfer the salaries amount to the village. (before transferring the amount to villages, we received the PAR from the site office and based on PAR we prepared the payroll sheets.)
 - ii. separate committee of three employees to distributed the salaries and take the acknowledgement of the employees. this committee is responsible to send back the acknowledgement to DAFA HQ Kabul.

Based on the acknowledgement receipt and our confirmation (sample base confirmation of employee via telephone call) we record the salary in our accounting system.

5. All HQ based employees are required to opened bank account. We transfer the salaries to HQ based employee through proper banking channel. none of the HQ based employees are paid through cash. Only the above stated field employees are paid through cash following the above-mentioned procedures and protocol.
6. For the field office we have updated our policies to transfer the salary of employees to their bank account up to the extent possible. Extract of the policy is attached here.

- Conrad judgmentally selected 2,924 of cash payment transactions for goods and purchases paid under Travel, Supplies, Equipment, Contractual, and Other Direct Costs (ODC). We noted 604 instances of purchase of goods or services that were paid in cash instead of electronic payment. In the source documentation provided by DAFA, there were no justifications as to why payments were made in cash rather than paid via bank transfer.

DAFA Response:

1. in order to run the project activities effectively and efficiently we need to provide all the supplies and material timely. We are buying the supplies and material from the local market. Unfortunately, for major supplies and material there are no companies or other organization from whom we buy these things. we are dependent on local market and bazar. Majority of the vendor either do not have a bank account or do not accept cheque or bank transfer because of lengthy bank procedure of money transfer from one bank account to another bank account. to buy the thing timely we are paid to vendor in cash - **exception cases**. However, for all significant large payment or international payment we only used bank cheque or bank transfer, to transfer the money to vendor bank account directly.
2. This limit of \$250 is only for petty cash.

Further, the following extract from our finance policy clearly says about the exception cases.

“The petty cash limit is normally set at the equivalent of US\$ 2000 with individual Payments not to exceed US\$ 250, in some exceptional cases a total amount of USD 2000 can be paid from petty cash (against proper approve documents).” - (Please refer to our finance policy Para 4)

3. Nevertheless, we have updated our policies to pay all the payment via banking channel above the cash payment threshold. Extract of the policy is attached here.

Finding 2019-02: DAFA lacked evidence to support the adequacy of costs incurred.

Nature of Finding: Non-Compliance; Internal Control – Deficiency: (Unsupported costs)

Condition-1:

Conrad judgmentally selected 1,760 timesheets for testing. In one instance, the personnel activity report (PAR), or timesheet, was not provided. This resulted in \$604 of questionable payroll costs.

DAFA Response:

It is DAFA policy that every employee prepares his own PAR. Section leader (supervisor) check the PAR with his own record. For this purpose, section leader keeps his own separate record. To prepare payroll, initially we received this record electronically. Our HR department keep all the PARs in separate PAR file. As we have large number of PARs so it is possible that Some PAR misplaced during the filing process. The above cost of \$604 (BV-281 of S-PMWRA-17-GR-1062) is associated with explosive bunker guard salaries who are fully dedicated to this project. Attached is the evidence of said employees (Field attendance report) who have worked for DAFA “BV 281 Field Attendance Report Grant 17-GR-1062”.

Condition-2:

Conrad judgmentally selected 2,333 of transactions for Equipment, ODC, and Supplies testing. In 30 instances, DAFA provided personnel items such as blankets, uniforms, shoes, and coats to its employees, but lacked employee’s acknowledgement of receiving these goods, which totaled \$13,722.

DAFA Response:

'1. we purchase the uniform and blankets at our HQ office. we transfer the uniform and blankets to field office for our field office employees.

2. We do not give blankets to employees as their property so we cannot take any acknowledgements from such employees. we keep all the blankets at our residence, our employee uses the blankets and when they left or projects completed, we keep all good conditioned blankets with our self and keep proper records of such blankets, further for your convenient attached please find the closing inventory details of all good conditioned inventory.

3. We do not issue Demining Kits and Visor to each employee as their property so we cannot take any acknowledgements from such employees. We issue the technical items to Logistic clerk of

teams to give to deminers every day when they are going to field and when they return from field the Logistic clerk is responsible to keep the tools in good condition in store. we keep all the technical items at our residence, we keep with our self-proper records of such items, further for your convenient attached please find the closing inventory details of all good conditioned inventory.

4. For every distribution of uniform we create a separate committee to distribute the uniform and take the employees acknowledgements. we do have all such acknowledgements. During the audit we tried our best to submit all the relevant documents to the auditor. Till the date of our exit meeting we have provided all the documents which we pulled out from the store. Since the exit meeting, we further pulled out the following more documents for your examination. The missing documents (employees' acknowledgments) are attached in this email.

S. #	Project #	Transaction #	Amount	Attached documents Ref #
1	S-PMWRA-13-GR-1008	BV37, BV-45, BV-256, BV-304, JV-132, BV-244,	2,213/-	- BV37, BV-45, BV-256, BV-304 Acknowledgment attached. - JV-132, BV-244, Inventory report attached.
2	S-PMWRA-13-GR-1010	BV-13, JV-189, JV 195 , JV-211 BV-364, BV-419	3,525/-	- BV-364, BV-419 Acknowledgment attached. - BV-13, JV-189, JV 195 , JV-211 Inventory report attached
3	S-PMWRA-13-GR-1024	JV-73, JV-74, JV-75, BV-163, JV-157, JV-160, BV-470, JV-328	3,998/-	-JV-73 Inventory report attached. - JV-74, JV-75, BV-163, JV-157, JV-160, BV-470, JV-328 Acknowledgment attached.
4	S-PMWRA-15-GR-1010	BV-23, JV-42, JV-102	1,095/-	-JV-42, JV-102 Inventory Report attached -BV 23- Acknowledgment of Uniform Attached
5	S-PMWRA-16-GR-1004	BV-178, BV-228, JV-23	1,468/-	BV 178 and JV 23 is Demining Kits & Inventory Report is attached, BV 228 is Visors which Inventory already sent to Conrad, copy of Inventory again attached
6	S-PMWRA-17-GR-1002	BV-106	514/-	BV106 Acknowledgement attached
7	S-PMWRA-17-GR-1019	JV-35	945/-	JV 35 Acknowledgement attached

Finding 2019-03: DAFA Claimed Ineligible Items

Nature of Finding: Non-Compliance; Internal control – Significant Deficiency :(Ineligible Cost)

Condition: During our testing of Personnel, Supplies, Contractual, Equipment, Other Direct Costs, and Indirect Charges, we noted the following items were not included in the proposed budget details that was approved by the Department of State:

- In 5 instances, commissions were paid to property and money dealers for renting properties and cash transferring between buyers and suppliers, which totaled \$272.

DAFA Response:**Commission paid to property dealers**

1. while renting a house or office in afghanistan it is mandatory for both parties (landlord and tenant) to sign a contract in the presence of independent third party (property dealer).
2. Property dealer accept the responcibility of both the parties for their duties and responcibilities.
3. In case of any Dispute between the both parties, property dealer resolve the dispute.
4. it is mandatory by law to submit the tenancy agreement in the police station having jurisdiction over the rented house or office. Police station accept only that agreement having signature of all three parties. The landlord, tenant and property dealer.
5. Governement of Afghanistan issues a Business registration license to approved property dealer.
6. We have rented our offices and houses only through such approved property dealers.
7. Based on all of the above points/rules it is necessary for us to rented the house and office through government approved property dealors. Such property Dealers charges a small fee for their services. This is what we charge this amount as property dealer comossion. In fact, this a part of the rent expenses.
8. A very small amount (less than 0.1% of the total direct rent) has been paid to property dealers to acquire their services.

- In 1 instance, cost associated with Mine Action for International Women's Day Celebration was claimed totaling \$200.

DAFA Response:

1- For 17-GR-1053: for official Gender working group meeting in Mine Action for International women day which was celebrated by Directorate of Mine Action Coordination of Afghanistan (DMAC) every organization in Mine Action was advised for participation and therefore DAFA paid a small portion share amount of USD 200, Payment justification documents is attached as BV-91 Grant 17-GR-1053.

2. This cost has been incurred in line with the DMAC objective and for implementing the Gender equality concept through out the industry in Afghanistan to provided an opportunity of equal ease of access to resources and opportunities regardless of gender, including economic participation and decision-making; and the state of valuing different behaviors, aspirations and needs equally, regardless of gender.

3. We are registered with the DMAC to execute Community Based Demining projects (CBD) and need to follow their policies as well.

- In 1 instance, a machine rental for demining purposes was charged which totaled \$2,500.

DAFA Response:

1. We have our own machine which we use for demining purpose. In donor approved budget we have a separate budget line of Machine maintenance , Machine fuel and operating cost.

2. During the project our machine was disorderd and the project activities were affected. we sent the machine for repair. The repairing company give us one-month time for repairing the machine. To complete the project timely and resume the project activites we hire the machine from a company. We charged the cost of machine to above mentioned budget line.

3. We managed the bove budget line and it is not over varianced for actual expenses incurred.

- In 13 instances, there were 6 job positions paid for that were not included in the proposed budget and there were 7 more job positions paid for than what were authorized for that position which had a combined total of \$3,212.

DAFA Response:

i- 13-GR-1008.

A) in donor approved budget there were two position for Assistant admin officer. we segregate these two positions in assistant admin officer and assistant security officer / Security supervisor. we have not paid his salary other than approved amount for assistant admin. Due to worse security situation in Afghanistan we have just change the title of the position.

B) in donor approved budget there was position for DATA processor having budget of 428 USD. Based on the requirement of that time we hire computer operator for 226 USD instead of DATA processor. So, we charge less salary amount then approved budget. Change in the salary was due to change in the scope and duties in both positions.

ii- 13-GR-1010.

A) in donor approved budget there was position for DATA processor having budget of 428 USD. Based on the requirement of that time we hire computer operator for 226 USD instead of DATA processor. So, we charge less salary amount then approved budget. Change in the salary was due to change in the scope and duties in both positions.

iii)- 15-GR-1010.

A) in donor approved budget there was position for Paramedic. To check the other paramedic activities, we have changed the position of one paramedic to assistant Medical officer without change in salary per approved budget scale.

iv)- 17-GR-1002.

A) in donor approved budget there were Twelve position for security Guards. Out of these ten guards we change the position of one guard as store keeper. However, the prime objective of the position was remaining the same i.e. to keep the equipment and other personnel safe from any theft or any other risk.

v)- 17-GR-1019.

A) in donor approved budget there was position for Admin finance logistic Assistant in every project. At that time, we were executing other projects in the same area as well. To check the other staff activities and keep their records properly we have changed the position of Admin finance logistic Assistant of this project to Supervisor without change in salary per approved budget scale based on our common cost allocation policy.

In addition, we noted the following items were not approved in the budget and lacked evidence to demonstrate why the purchase was 100% charged to the grants.

- In 1 instance, a 4.5 KV Electric Generator was purchased for one of DAFA's field offices and was 100% charged to a grant which totaled \$350.

DAFA Response:

1. In our field office of this project we are facing a huge electricity breakdown. In order to cover this issues, We purchased a small China made generator for our field office. We have the separate budget of office equipment in donor approved budget. we charged the expenses to this budget line.
2. This is the equipment in our inventory list and will be treated per DOS rules regulation at the end of project.

- In 1 instance, an accounting software was purchased and charged 100% to a grant which totaled \$1,348.

DAFA Response:

1. first we were using the excel sheets for our accounting and management information system (MIS) purpose. However, our donors recommended to use an authorized accounting software for accounting and MIS system. Based on our research we determined that Quick Book Accounting software is authorized, has a simple and easy user interface, very reasonable in price and easily available in the market. So based on the recommendation of donor and our market research, we purchase Quick book accounting software.
2. we have a budget line of "office equipment" in ODC of donor's approved budget.
3. Accounting software is a non-tangible asset (office Equipment) so we charged this expenses to office equipment budget line.
4. We have charged Quick Book accounting software price to one project and its installation and training to another project based on the availability of the budget at that time.

Furthermore, during our testing, we noted the following where rates were claimed that exceeded the authorized rate as proposed and approved in the budget.

- In 51 instances, employees' salary rate claimed exceeded the authorized pay rate that was proposed and approved which totaled \$2,557.

DAFA Response:

1. We have operated in security risk areas all the time during these projects. For this purpose, we hired only trusted employees. In all of these audited projects, we hired the employees who worked with us since establishment of DAFA. Those who are experienced and more trusted employees demand a high salary. we have paid them USD 15-20 increased salary than approved budget due to their deserving position and above stated reason. However, in total, we have not paid the salaries more than the approved budget. We managed all the salaries within the approved budget. Besides, as per USDOS rule we are allowed for 10% variation in cost to increase with the approved budget limit.
2. If we hired new/unexperienced employees, other than as stated above, we need to train them to how to move within contaminated areas and how to deal with non-state actors. This ultimate lead to high cost for which we do not have any budget.
3. Our old employees are our trusted employees. We cannot take any risk of being unfair treated by any non-state actors by hiring new employees. In Afghanistan, many instances occurred due to untrusted employees for which organizations paid amount other than approved budget. we cannot afford such payments because of strict USDOS rules and regulation and further we do not have any other means of income (other income).
4. We have completed more than one project at same conditioned area in many provinces. so our old employees are familiar with the condition and protocol of that areas. Therefore, we hired these people with little bit increased (15-20 USD) salaries. we have already Step/promotion policy in our HR policy. Based on our HR policy and within the budget limit we have managed the actual expenses.
5. Based on all above reasons, we pay a little bit more salary (not more than USD 20) to our supporting staff to avoid above stated additional cost and risk.

- In 17 instances, Rents, Utilities, Internets, Uniforms, etc. claimed exceeded the authorized rate that was proposed and approved which totaled \$2,296.

DAFA Response:

1. Rent, utilities and Internet. We have executed and even currently executing many projects at the same time. We use single office or house for these projects. We share such common cost (Rent, utilities and Internet) of to these projects on our basis of allocation. some times it is difficult to charged such common cost to these projects due to different working and progress condition. So we charged one month total cost of such common cost to one project and then next month cost charged to another project and so on. This process continue till completion of project. However, we keep an updated and detail record and periodical reconciliation to control the budget of each project. In non of the project the actual expenses did not increase the approved budget level. There is no over variance of actual expenses.

2. Uniform. while purchasing the uniform, the uniforms does not available in the market as readymade uniform. Through a special order we prepare the uniform. the vendors (tailors) offer a packages. prices decrease by increasing the number of uniforms. IF we Order by Dozens (like 10 dozens etc), we are receives a good rate of discount. When we order in Dozens, difinately it leads to some extra uniforms (not more then 5 or 6 per team).

3. We also need to keep some extra uniform due to immediate resignation/death of deminars. in this case if we hire a new deminar, we can not do wait for uniform. We have a uniform in our store room and we give it to new deminar to carry out the activities of the project without any delay.

- In 5 of the grants tested, the indirect cost claimed exceeded the indirect cost rate approved which totaled \$5,102.

DAFA Response:

Based on our checking, we identify that some of the expenses that were charged as indirect cost are actually the direct cost of Field Items, Fuel for Vehicles, Loader Machine Maintenance, Medical Supplies and Uniform for personnel. Detail of the expenses are as follows:

- 1) 16-GR-1004. BV 142 Medical Supplies for Teams amount of USD 1,525.95, BV 174 Backhoe Maintenance USD 580.15. the cost itself is clarified while the Machine Backhoe is in field for

excavation and also the Medical Supplies are for field personnel, the same details are available in detailed ledgers.

- 2) 13-GR-1008: JV 68 amount of USD 583.60 Field Items, BV 116 amount of USD 692 Fuel for Vehicles.
- 3) 13-GR-1024: JV 198 amount of USD 322.68 Uniform for Personnel, BV-648 amount of USD 379.20 Uniform, and BV 520 Rent of Premises.
- 4) 17-GR-1053: BV 16 amount of USD 206.40 Uniform, and BV 18 Fuel for Vehicles amount of USD 302.61

all above Expenditure are direct cost but misclassified in ledgers as Indirect cost.

Finding 2019-04: DAFA did not Adhere to Afghanistan Tax Law

Nature of Finding: Non-Compliance

Condition: During our testing of Travel, Equipment, Supplies, Contractual, and Other Direct Costs, we noted in 213 instances where DAFA did not withhold taxes from supplier purchases or from landlord for rent as required by the Afghanistan Tax Law.

DAFA Response:

It is the requirement of the Afghanistan Tax Law to deduct the tax from vendors having more than 500,000/- AFN invoice value in aggregate for the whole year. We deducted the tax per law from vendors whose single invoice is greater than 500,000/- AFN. The issues are due to multiple invoices of vendors during the year having aggregate value of over 500,000/- AFN. We have updated our control policies and insert new control to detect the vendors whose invoice value are increasing from 500,000/- annually. We are Now deducting the tax from vendors whose invoice values are increasing from 500,000/- per annum, per tax law.

Demining Agency for Afghanistan

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Auditor's Rebuttal to DAFA's Responses to the Audit Report

DAFA agreed with Finding 2019-04, and disagreed or partially disagreed with Findings 2019-01, 2019-02, and 2019-03. We have reviewed DAFA's responses and provided the following rebuttals to the findings which DAFA disagreed:

- 2019-01: DAFA partially disagrees with the audit finding stating that payments made in cash to employees and vendors were due to electronic bank payments were not practical and possible as these employees or vendors don't have bank account. However, DAFA had updated their policies and procedures to ensure future payment will be made via electronic banking system for employees and for vendors that are over the \$250 cash payment threshold.

Auditors' Rebuttal: The finding condition and recommendation was related to lack of adequate justification as to for payments made in cash rather than electronic bank payments. Auditors acknowledged that given the situation in country the Grants were operated, there were instances when electronic bank payments might not always be practical and possible. However, DAFA needs to develop policies and procedures to ensure responsible staff document their rationale as to why electronic bank payments cannot be made prior to making the payments. Further, in reviewing some of the employees and vendors in question, it appeared they do have bank account and electronic bank payment can be made. For example, employees such as Project Manager, Team Guard, Field Doctors, all have bank accounts, but salaries were paid in cash. In addition, some vendors in question were related to machinery vendors, vehicle rental agents, travel agents, etc., which were all vendors who have bank accounts, but payments were paid in cash rather than electronic bank payments. This concluded that DAFA was not always following its payment policies and procedures. As such, the finding and recommendations remained unchanged.

- 2019-02: DAFA partially disagrees with the audit finding stating that 1) for the missing personnel activity report (PAR), due to large population of PARs, it is possible that the PAR was misplaced. However, DAFA was able to provide field attendance report of this employee in this response, and 2) for blankets and demining kits that were missing employee's acknowledgement form, since they were DAFA's properties and never owned by the employees therefore it does not require employee's acknowledgement; 3) For uniforms, DAFA agreed that it required employees' acknowledgement of these goods but could not locate the evidence of acknowledgement prior to end of fieldwork but was able to locate them after fieldwork.

Auditors' Rebuttal:

- 1) For the missing PAR, DAFA provided a PAR during this management response. However, based on reviewing the PAR submitted, it lacked the date for the preparer and approver were time certified, which brings doubt the validity of this PAR was actually prepared. As such, the finding, identified questioned costs, and recommendations remained unchanged.

- 2) For the blankets and demining kits where DAFA stated these items were DAFA's properties and acknowledgement of receipt from employees were not applicable but only required an inventory report of DAFA's properties. However, such report was not provided during fieldwork.
- 3) For employees' uniforms, DAFA stated that the acknowledgement forms cannot be located and provided to the auditors prior to the end of fieldwork because they were in different field office locations. It was worth mentioning that these employee's uniforms were required to return to DAFA upon employees' completion of the project as they were DAFA's property.

DAFA stated it was able to locate and provide evidence of these acknowledgment forms and the inventory report and had provided these evidences along with its management response. Auditors reviewed the additional evidence provided and satisfied that the evidences were sufficient to remove the cost in questioned, except for the following transaction:

Grant No.	Transaction No.	Cost Category	Amount in Questioned	Additional Document Accepted (Y/N)	Reason Additional Document was insufficient to remove the finding.
S-PMWRA-16-GR-1004	BV 228	Equipment	\$753	N	The signed inventory report does not include the item in questioned (full face visor) .

Based on the additional evidence provided, Conrad reduced the questioned cost associated with this finding and revised the report's questioned amount accordingly. However, DAFA response still did address the adequate control over its retention policy as these supporting evidences were requested in our initial request in and were followed up during our initiation of fieldwork. As such, the audit finding, and recommendations remained unchanged.

- 2019-03: DAFA disagrees with the audit finding stating that many of the items in questioned were either 1) normal expenses for the grants' operations, 2) the items were approved under a general budget category such as office equipment, office machinery, etc., 3) salary, rent, and utility rates over the approved budget rate were due to unexpected changes through the life of the grants; and 4) some of the items in indirect costs were misclassified.

Auditors' Rebuttal: DAFA's disagreements only provided general explanation in its management response but did not provide any further evidence to support its explanation nor evidence to support its responses. As stated in the finding condition, the amount questioned was either due to lack of specific budget details for these items in question, lacked evidence of why the purchases were 100% charged to the grants, or lacked document to demonstrate approved rates can be exceeding the proposed rates. In addition, as stated in the recommendation of this finding, DAFA needs to be more specific on the items being questioned that were unique in nature given the nature of these items and might not be categorized in a general budget category. For indirect costs items where DAFA stated they were in fact direct cost expenses, the source evidence supporting that these expenses were in fact direct cost were not provided. As such, this finding, identified questioned cost, and recommendation remain unchanged.

(Continued)

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