

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-13 Financial Audit

Department of State's Efforts to Support
Activities Related to Removing Landmines and
Unexploded Weapons in Afghanistan: Audit of
Costs Incurred by ITF Enhancing Human Security



DECEMBER
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

Between 2014 and 2018, the Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement awarded two cooperative agreements and one grant worth a total of \$1,277,979 to ITF Enhancing Human Security (ITF); these were to support activities related to removing landmines and unexploded weapons in Afghanistan. The periods of performance for the three awards extended from March 1, 2014, through September 30, 2018. State modified the awards several times, which increased the total value to \$10,732,130 and extended the period of performance to December 18, 2019.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$10,113,202 of costs incurred from March 1, 2014, through September 30, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in ITF'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 ITF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ITF'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.

December 2019

Department of State's Efforts to Support Activities Related to Removing Landmines and Unexploded Weapons in Afghanistan: Audit of Costs Incurred by ITF Enhancing Human Security

SIGAR 20-13-FA

WHAT SIGAR FOUND

Conrad identified two significant deficiencies in ITF's internal controls and one instance of noncompliance with the terms of the awards and applicable laws and regulations. Conrad found that ITF paid expenses of vendors and employees without first confirming that they were not in the Excluded Parties List System and not associated with terrorism, as required by the Code of Federal Regulations and State's conditions for foreign public entities.

Conrad also found that ITF's office in Afghanistan did not have sufficient internal controls over cash management and did not segregate cash-related duties. For example, the coordinator in that office processed salary payments—including their own—and performed bank reconciliations with limited oversight. Weak internal controls over financial management significantly raise the risk of loss, theft, and embezzlement of federal funds.

Conrad did not identify any questioned costs, which would have consisted of ineligible costs—costs prohibited by the contract, applicable laws or regulations, and unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Conrad reviewed prior audits and engagements pertaining to ITF and did not identify any findings and recommendations that could have a material effect on the organization's SPFS.

Conrad issued an unmodified opinion on ITF'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 Office of Weapons Removal and Abatement:

- 1. Advise ITF to address the report's two internal control findings.**
- 2. Advise ITF to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 5, 2019

The Honorable Michael R. Pompeo
Secretary of State

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

Ambassador John Bass
U.S. Ambassador to Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by ITF Enhancing Human Security (ITF) under two cooperative agreements and one grant that the Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement awarded to support activities related to removing landmines and unexploded weapons in Afghanistan.¹ Conrad reviewed \$10,113,202 of costs incurred from March 1, 2014, through September 30, 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 contracting officer at State's Office of Weapons Removal and Abatement:

- 1. Advise ITF to address the report's two internal control findings.**
- 2. Advise ITF to address the report's one noncompliance finding.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed it 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 ITF's Special Purpose Financial Statement. We also express no opinion on the effectiveness of ITF's internal control or compliance with the grants, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. 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-158)

¹ The agreement numbers are S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088, and the grant number is S-PMWRA-16-GR-1035.

ITF ENHANCING HUMAN SECURITY

Financial Audit of Costs Incurred Under
Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine
Detection Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

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September 20, 2019

Managing Board
ITF Enhancing Human Security
Ljubljana, Slovenia

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 ITF Enhancing Human Security ("ITF") Special Purpose Financial Statement ("SPFS") for costs incurred under Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement Cooperative Agreement Numbers S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088 and Grant Number S-PMWRA-16-GR-1035, for the period March 1, 2014 through September 30, 2018, under the program to provide Capacity Support to Mine Action Coordination and Transition; and Mine Detection Centre Polyclinic Support in Afghanistan.

On June 18, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. ITF received a copy of the report on September 5, 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 ITF. ITF'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 this ITF contract.

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Background

Between 2014 and 2018, the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (“State”) awarded two cooperative agreements (“CA”) and one grant (“Grant”) to ITF Enhancing Human Security (“ITF”). The purpose of these awards was to support the development of sustainable, indigenous capabilities and promote economic stability and regional security in Afghanistan. Specifically, ITF was tasked with the following principal objectives:

1. Cooperative Agreement No. S-PMWRA-14-CA-1019: “Capacity Support to Mine Action Coordination and Transition in Afghanistan.” The principal objective of this cooperative agreement is to issue and manage sub-awards whose purpose is to reduce the humanitarian and social-economic threats, increase human security from landmines and explosive remnants of war (“ERW”), and to support conventional weapons destruction programs in Afghanistan.
2. Grant No. S-PMWRA-16-GR-1035: “Mine Detection Centre Polyclinic Support in 2016.” The principal objective of this grant is to make medical, dental, psychotherapy and physiotherapy services accessible to landmine and ERW survivors as well as local Kabul citizens through direct support of Mine Detection Centre Polyclinic (“MDC”) and the shared salaries for medical personnel and MDC support staff.
3. Cooperative Agreement No. S-PMWRA-17-CA-1088: “Capacity Support to Mine Action Coordination in Afghanistan 2017/2018.” The principal objective of this award is to support Afghanistan National Disaster Management Agency – Directorate for Mine Action Coordination (“DMAC”) to strengthen national ownership of mine action.

State amended Cooperative Agreement No. S-PMWRA-14-CA-1019, 16 times, Grant No. S-PMWRA-16-GR-1035, once, and Cooperative Agreement No. S-PMWRA-17-CA-1088, twice. The significant amendments were to increase the total estimated costs and/or extend the period of performance. The chart below summarizes the cost and period of performance for the Cooperative Agreements and Grant, as amended. The period under audit is March 1, 2014 through September 30, 2018.

Summary of Cooperative Agreements and Grant

| Cooperative Agreement (CA)/Grant Number (GR) | Original Award | | | Modified Award | |
|--|----------------|-----------|------------------------|------------------------|------------|
| | Cost (\$) | Start | End | Cost (\$) | End |
| S-PMWRA-14-CA-1019 ¹ | \$ 198,857 | 3/1/2014 | 6/30/2015 | \$ 9,073,180 | 12/31/2018 |
| S-PMWRA-16-GR-1035 ² | 79,122 | 6/2/2016 | 12/31/2016 | 158,950 ³ | 12/31/2017 |
| S-PMWRA-17-CA-1088 | 1,000,000 | 10/1/2017 | 9/30/2018 ⁴ | 1,500,000 ⁵ | 9/30/2018 |

¹ Amendment M016, executed on May 18, 2018 introduced compliance requirements under 2 CFR Parts 200 and 600.

² Closeout procedures were performed for the Grant.

³ Increased Federal obligated amount of \$93,564 and modified recipient obligated amount of \$65,386, total of \$158,950.

⁴ Includes 2 option years, and if elected would extend the period of performance to September 30, 2019 and September 30, 2020, respectively.

⁵ Amendment M003 was executed on December 14, 2018, subsequent to the audit period, extending the period of performance to December 18, 2019. Therefore, no close-out procedures were performed.

| Cooperative Agreement (CA)/Grant Number (GR) | Original Award | | | Modified Award | |
|--|--------------------|-------|-----|---------------------|-----|
| | Cost (\$) | Start | End | Cost (\$) | End |
| Total: | \$1,277,979 | | | \$10,732,130 | |

Work Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) engaged Conrad LLP (“Conrad”) to conduct a financial audit of ITF’s Special Purpose Financial Statement (“SPFS”) for costs incurred under State’s Cooperative Agreement Nos. S-PMWRA-14-CA-1019, S-PMWRA-17-CA-1088 and Grant No. S-PMWRA-16-GR-1035, totaling \$10,113,202 for the period March 1, 2014 through September 30, 2018.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether ITF’s SPFS for the Cooperative Agreements and Grant 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 with the terms of the Cooperative Agreements and Grant and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of ITF’s internal controls related to the Cooperative Agreements and Grant, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether ITF complied, in all material respects, with the Cooperative Agreements and Grant 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 ITF 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 1, 2014 through September 30, 2018 under the Cooperative Agreements and Grant. Our testing of indirect costs was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates, as applicable

for the given fiscal year, as approved in the budget of the Cooperative Agreements and Grant by the State.

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 29, 2019. Participants included representatives of Conrad, ITF, SIGAR, and PM/WRA.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of ITF;
- Reviewed the Cooperative Agreements and Grant and all modifications/amendments;
- Reviewed regulations specific to State that are applicable to the Cooperative Agreements and Grant;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, 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 Cooperative Agreements/Grant and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$50,600 not to exceed 30% of the total amount expended for each cost category.
 - For medium risk cost categories, we sampled transactions greater than \$101,200 not to exceed 20% of the total amount expended for each cost category.
 - For low risk cost categories, we sampled transactions greater than \$101,200 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 cost categories.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

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

Internal Controls Related to the Awards

We reviewed ITF's internal controls related to the Cooperative Agreements and Grant. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying and testing key controls within significant transaction cycles.

Compliance with Cooperative Agreements and Grant's Requirements and Applicable Laws and Regulations

We performed tests to determine whether ITF complied, in all material respects, with the Cooperative Agreements and Grant requirements, Title 2 Part 200: Code of Federal Regulations (2 CFR 200), and any other applicable laws and regulations. We also 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 all reports from previous engagements from ITF. Additionally, we conducted an online search of governmental websites including SIGAR, State and other federal agencies, to identify previous engagements that could have a material effect on ITF's SPFS. Based on our review, we did not identify any prior findings or recommendations that could have a material effect on the SPFS. See the Prior Findings and Recommendations subsection of this Summary.

Exit Conference

An exit conference was held on June 11, 2019 via conference call. Participants included representatives from Conrad, ITF, SIGAR, and State. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Upon completion of our audit of the costs incurred by ITF under the Cooperative Agreements and Grant, we issued an unmodified opinion on the SPFS and identified no questioned costs. We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our 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.

Auditor's Opinion on the SPFS

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

Summary of Findings and Questioned Costs

Findings are classified as either an internal control deficiency or noncompliance, or if both classifications were identified then a combination of both were presented. Our audit identified two significant deficiencies in internal controls and one instance of noncompliance. No questioned costs were identified, neither ineligible nor unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the cooperative agreement and grant 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. See Schedule of Findings and Questioned Costs section on page 18 for details.

Internal Control Findings

Our audit discovered two internal control findings, consisting of two significant deficiencies. See Independent Auditor's Report on Internal Control on page 13.

Compliance Findings

The results of our tests disclosed one instance of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 16.

We also 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*. We identified no such items.

Review of Prior Findings and Recommendations

We reviewed Statutory Annual Statements for fiscal years 2015, 2016, and 2017 and agreed-upon procedure report of Factual Findings of ITF for fiscal years 2015, 2016, and 2017 and did not identify any prior findings and recommendations that could have a material effect on ITF's SPFS.

Summary of ITF's Responses to Findings

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

- 2019-01: ITF stated that exclusion checks were performed prior to purchase/hire, but acknowledges that no documentation of exclusion and anti-terrorist checks were retained for checks performed, prior to execution of vendor/employee agreements.
- 2019-02 : ITF acknowledges that there were insufficient controls surrounding cash management in the Afghanistan implementation office.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Managing Board
ITF Enhancing Human Security
Ljubljana, Slovenia

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of ITF Enhancing Human Security ("ITF") and the related notes to the Consolidated Special Purpose Financial Statement, with respect to the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("State") Cooperative Agreement Nos. S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088, Capacity Support to Mine Action Coordination and Transition; and Grant No. S-PMWRA-16-GR-1035, Mine Detection Centre Polyclinic Support program in Afghanistan, for the period March 1, 2014 through September 30, 2018.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the 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 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 Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments,

(continued)

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the auditor considers internal control relevant to the ITF's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ITF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by ITF under the Cooperative Agreement Nos. S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088; and Grant No. S-PMWRA-16-GR-1035, for the period March 1, 2014 through September 30, 2018, in accordance with the basis of accounting described in Note 3.

Basis of Presentation

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by ITF 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 the Cooperative Agreement Nos. S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088; and Grant No. S-PMWRA-16-GR-1035, 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 Cooperative Agreements and Grant referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of ITF Enhancing Human Security, the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 20, 2019 on our consideration of ITF'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 ITF's internal control over financial reporting and compliance.

Conrad LLP

Lake Forest, California
September 20, 2019

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Special Purpose Financial Statement (Consolidated)

| | <u>Budget</u> | <u>Actual</u> | Questioned Costs | | | <u>Notes</u> |
|--------------------------|-------------------|-------------------|-------------------|--------------------|--------------|--------------|
| | | | <u>Ineligible</u> | <u>Unsupported</u> | <u>Total</u> | |
| Revenues: | | | | | | |
| Consolidated Awards | \$ 10,666,744 | \$ 10,227,430 | \$ - | \$ - | \$ - | (5) |
| Total revenues | <u>10,666,744</u> | <u>10,227,430</u> | - | - | - | |
| Costs incurred: | | | | | | (6) |
| Personnel | 6,161,488 | 6,004,393 | - | - | - | |
| Travel | 1,073,662 | 926,842 | - | - | - | |
| Equipment | 142,528 | 128,708 | - | - | - | |
| Supplies | 38,286 | 29,926 | - | - | - | |
| Contractual | 275,154 | 238,561 | - | - | - | |
| Construction | 35,000 | 35,099 | - | - | - | |
| Other Direct Costs | 2,332,160 | 2,174,599 | - | - | - | |
| Indirect Costs | <u>608,466</u> | <u>575,074</u> | - | - | - | |
| Total costs incurred | <u>10,666,744</u> | <u>10,113,202</u> | \$ - | \$ - | \$ - | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ 114,228</u> | | | | (7) |

Note: SPFS related to each specific Cooperative Agreement and Grant is included in **Appendix A**.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

Notes to the Special Purpose Financial Statement⁶

For the Period March 1, 2014 to September 30, 2018

(1) **Background**

ITF Enhancing Human Security ("ITF") is a humanitarian, non-profit organization established by the Government of the Republic of Slovenia in March 1998. Between 2014 and 2018, the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("State") awarded two cooperative agreements ("CA") and one grant ("Grant") to ITF. The purpose of these awards was to support the development of sustainable, indigenous capabilities and promote economic stability and regional security in Afghanistan.

(2) **Basis of Presentation**

The accompanying Special Purpose Financial Statement ("SPFS") includes costs incurred under Cooperative Agreement No. S-PMWRA-14-CA-1019 "Capacity Support to Mine Action Coordination and Transition in Afghanistan" for the period March 1, 2014 through September 30, 2018, Cooperative Agreement No. S-PMWRA-17-CA-1088 "Capacity Support to Mine Action Coordination in Afghanistan 2017/2018" for the period October 1, 2017 through September 30, 2018 and Grant No. S-PMWRA-16-GR-1035 "Mine Detection Centre Polyclinic Support in 2016-2017" for the period June 2, 2016 through December 31, 2017 with pre-award costs approved from January 1, 2016. Because the SPFS presents only a selected portion of the operations of ITF, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of ITF Enhancing Human Security. The information in this SPFS is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned awards. Therefore, some amounts presented in this SPFS may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) **Basis of Accounting**

Expenditures and revenue reported on the SPFS are on the cash basis of accounting, and amounts are presented per the terms of the Cooperative Agreements and Grant. Such expenditures are recognized following cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

⁶ The Notes to the Special Purpose Financial Statement are the responsibility of ITF.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

Notes to the Special Purpose Financial Statement

For the Period March 1, 2014 to September 30, 2018

(Continued)

(4) Foreign Currency Conversion Method

For purposes of preparing the SPFS, conversions from local currency to United States dollars were not required as all costs presented were in United States dollars and were converted in ITF's accounting system when the transactions were recorded.

(5) Revenue

Revenues on the SPFS represent the amount of funds ITF is entitled to receive from State for allowable, eligible costs incurred under the Cooperative Agreements and Grant, during the period of performance.

(6) 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 Cooperative Agreement No. S-PMWRA-14-CA-1019, amendment number M016 dated May 18, 2018, Grant No. S-PMWRA-16-GR-1035, amendment number M002 dated March 8, 2018, and Cooperative Agreement No. S-PMWRA-17-CA-1088, amendment number M002 dated September 23, 2018.

(7) Balance

For the period of March 1, 2014 through September 30, 2018, ITF received \$10,227,430 in payments and incurred costs of \$10,113,202. The outstanding fund balance of \$47,590 under Cooperative Agreement No. S-PMWRA-14-CA-1019, and \$66,638 under Cooperative Agreement No. S-PMWRA-17-CA-1088, represent the amount ITF received from State in excess of expenditures. ITF claims funding based on costs incurred and estimated operating cost requirements for the coming month.

The \$47,590 under Cooperative Agreement No. S-PMWRA-14-CA-1019, and \$66,638 under Cooperative Agreement No. S-PMWRA-17-CA-1088, are due to the cash advance for estimated costs for the following month.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

Notes to the Special Purpose Financial Statement

For the Period March 1, 2014 to September 30, 2018

(Continued)

(8) **Program Status**

The Cooperative Agreement No. S-PMWRA-14-CA-1019 remains active beyond the audit period. The period of performance for the cooperative agreement is scheduled to conclude on December 31, 2018 as noted in modification number 016 dated May 18, 2018.

The Grant No. S-PMWRA-16-GR-1035 is closed. The period of performance for the grant concluded on December 31, 2017 as noted in modification number 002 dated March 10, 2018.

The Cooperative Agreement No. S-PMWRA-17-CA-1088 remains active beyond the audit period. The period of performance for the cooperative agreement is scheduled to conclude on December 31, 2019 as noted in modification number 003 dated December 14, 2018.

(9) **Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the March 1, 2014 through September 30, 2018 period covered by the SPFS. Management has performed their analysis through September 20, 2019.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Managing Board
ITF Enhancing Human Security
Ljubljana, Slovenia

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("SPFS" or the "Statement") of ITF Enhancing Human Security ("ITF") representing revenues received and costs incurred under Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and Grant No. S-PMWRA-16-GR-1035 Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection Centre Polyclinic Support with the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("State") for the period March 1, 2014 through September 30, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated September 20, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

Internal Control over Financial Reporting

ITF's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 2 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

(Continued)

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In planning and performing our audit of the Special Purpose Financial Statement of ITF for the period March 1, 2014 through September 30, 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 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.

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. We identified two significant deficiencies in internal controls, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-01 and 2019-02.

ITF's Response to Findings

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

Purpose of this Report

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

Conrad LLP

Lake Forest, California
September 20, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Managing Board
ITF Enhancing Human Security
Ljubljana, Slovenia

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of ITF Enhancing Human Security ("ITF"), representing revenues received and costs incurred under Cooperative Agreements Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and Grant No. S-PMWRA-16-GR-1035 Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection Centre Polyclinic Support with the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for the period March 1, 2014 through September 30, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated September 20, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Management's Responsibility for Compliance

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ITF's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, 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 one instance 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 Finding 2019-01.

(continued)

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ITF's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of 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 ITF Enhancing Human Security, the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement 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.

Conrad LLP

Lake Forest, California
September 20, 2019

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Schedule of Findings and Questioned Costs

Finding 2019-01: Exclusion and anti-terrorist checks not performed timely

Nature of Finding: Non-Compliance and Internal Control – Significant Deficiency

Condition: Conrad selected a sample of 335 expense items in the category of Personnel, Travel, Equipment, Supplies, Contractual, Construction and Other expenses to ensure exclusion and anti-terrorist checks were performed prior to procurement. Of the 335 samples, for 251 samples from about 144 vendors and 1 employee, ITF did not conduct exclusion and anti-terrorist checks prior to procurement or prior to hire. Subsequent to our testing, however, and in response to audit queries, ITF conducted these exclusion or anti-terrorist checks and found no instance where the vendors/employee were included on the exclusion list. However, lack of this review prior to procurement and in a timely manner is not in compliance with federal regulations.

242 and 9 of the samples where exclusion checks were not performed related to Cooperative Agreement Nos' S-PMWRA-14-CA-1019, and S-PMWRA-17-CA-1088, respectively, with the majority relating to Travel, and Other expenses.

Criteria: 2 CFR 200, Appendix II - *Contract Provisions for Non-Federal Entity Contracts Under Federal Awards*, states, in part:

"(H) Debarment and Suspension - A contract award (see 2 CFR 180.220) must not be made to parties listed on the government-wide Excluded Parties List System in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR Part 1986 Comp., p. 189) and 12689 (3 CFR Part 1989 Comp., p.235), "Debarment and Suspension." The Excluded Parties List System in SAM contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549."

Moreover, Cooperative Agreement Nos: S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088, the U.S. Department of State Terms and Conditions for Foreign Public Entities, states:

"U.S. Executive Orders and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the responsibility of the Recipient to ensure compliance with these Executive Orders and laws. This provision must be included in all contracts or sub-awards/agreements issued under this award."

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Schedule of Findings and Questioned Costs

(Continued)

Additionally, Attachment C/B, Affidavit Statement in Cooperative Agreement Nos: S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088, SYSTEM FOR AWARD MANAGEMENT (SAM.gov) PRINCIPALS CERTIFICATION for PM/WRA SUBRECIPIENTS states:

“I confirm that all principals of (Name of Company/Organization) have been searched through the System for Award Management, SAM.gov, which can be accessed through the following link: <https://www.sam.gov/portal/public/SAM/>.”

A “principal”/official is defined as:

- a. An officer, director, owner, partner, principal investigator, or other person with management or supervisory responsibilities related to a covered transaction; or
- b. A consultant or other person, whether or not employed by the participant or paid with Federal funds, who—
 - i. Is in a position to handle Federal funds;
 - ii. Is in a position to influence or control the use of those funds; or,
 - iii. Occupies a technical or professional position capable of substantially influencing the development or outcome of an activity required to perform the covered transaction. ...”

Cause ITF lacked policies and procedures to confirm and document that all principals of each vendor were not listed on the exclusion or anti-terrorist list prior to the execution of agreements with personnel and vendors.

Effect: If exclusion or anti-terrorist checks are not performed on vendors prior to procurement, it could increase the risk that Federal funds might be used in support of terrorist activities and not comply with federal regulations.

Questioned Costs: None.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Schedule of Findings and Questioned Costs

(Continued)

Recommendation:

- (1) We recommend that ITF establish policies and procedures to confirm and document that all principals of each vendor were not listed on the exclusion or anti-terrorist list prior to the execution of agreements with personnel and vendors.
- (2) We recommend that ITF provide training to staff responsible for performing exclusion and anti-terrorism checks and maintain supporting documentation related to these checks in accordance with their policies and procedures and terms of the agreement.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Schedule of Findings and Questioned Costs

(Continued)

Finding 2019-02: Insufficient internal controls over cash management process.

Nature of Finding: Internal Control – Significant Deficiency

Condition: We reviewed ITF's cash management policies and procedures with ITF management, and found ITF had weak internal controls over its cash processes in Afghanistan throughout the audit period. This impacted Cooperative Agreements Nos: S-PMWRA-14-CA-1019 and S-PMWRA-17-CA-1088, and Grant No. S-PMWRA-16-GR-1035. Specifically, the ITF Coordinator in Afghanistan's implementation office reconciles its petty cash (USD and AFN) on an annual basis with no periodic oversight. In addition, the ITF Coordinator performs most of the key cash related functions such as cash counts, payroll payments/wire transfers (including paying their own salary), bank reconciliations, etc. with limited oversight. These duties should be segregated amongst staff to maintain an effective internal control environment.

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

“...(4) 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...”

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...”

ITF's Rules on Cash Register Operations, Article 8, Regular and extraordinary inventory of the cash register, states, in part:

“The inventory of the cash register shall be performed once a year for the purposes of drawing up the annual report of the legal entity. The inventory commission shall take an inventory on the cash in the cash register after the treasurer completes the cash book for the last day of the accounting period. The inventory commission shall perform this inventory at the end of the last day of the financial year or on the first working day of the new accounting period before the cash register starts to operate. ...”

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Schedule of Findings and Questioned Costs

(Continued)

Cause: There was insufficient staff in the Afghanistan implementation office to perform the key petty cash controls more frequently, and with periodic management or secondary reviews. In addition, without additional staffing, the ITF Coordinator had to perform the majority of the cash management functions.

Effect: Weak internal controls related to cash management significantly raise the risk of loss, theft, and embezzlement of Federal funds.

Questioned Costs: None.

Recommendation: We recommend that ITF ensure proper segregation of duties with its limited staff on hand in the Afghanistan implementation office and ITF implement more frequent cash counts, and surprise cash counts.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Special Purpose Financial Statement

(Continued)

Cooperative Agreement Number – S-PMWRA-14-CA-1019

| | Budget | Actual | Questioned Costs | | | Notes |
|--------------------------|------------------|------------------|------------------|-------------|-------------|-------|
| | | | Ineligible | Unsupported | Total | |
| Revenues: | | | | | | |
| S-PMWRA-14-CA-1019 | \$ 9,073,180 | \$ 8,840,567 | \$ - | \$ - | \$ - | (5) |
| Total revenues | <u>9,073,180</u> | <u>8,840,567</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Costs incurred: | | | | | | (6) |
| Personnel | 5,201,509 | 5,245,764 | - | - | - | |
| Travel | 894,282 | 768,939 | - | - | - | |
| Equipment | 142,528 | 128,708 | - | - | - | |
| Supplies | 29,566 | 25,559 | - | - | - | |
| Contractual | 188,480 | 151,887 | - | - | - | |
| Construction | 35,000 | 35,099 | - | - | - | |
| Other Direct Costs | 2,078,370 | 1,948,367 | - | - | - | |
| Indirect Costs | <u>503,445</u> | <u>488,654</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total costs incurred | <u>9,073,180</u> | <u>8,792,977</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Outstanding fund balance | \$ - | \$ 47,590 | | | | (7) |

Please see Notes to the Special Purpose Financial Statement
on page 10 of this report.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Special Purpose Financial Statement

(Continued)

Grant Number – S-PMWRA-16-GR-1035

| | <u>Budget</u> | <u>Actual</u> | <u>Questioned Costs</u> | | | <u>Notes</u> |
|--------------------------|---------------|---------------|-------------------------|--------------------|--------------|--------------|
| | | | <u>Ineligible</u> | <u>Unsupported</u> | <u>Total</u> | |
| Revenues: | | | | | | |
| S-PMWRA-16-GR-1035 | \$ 93,564 | \$ 93,564 | \$ - | \$ - | \$ - | (5) |
| Total revenues | <u>93,564</u> | <u>93,564</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Costs incurred: | | | | | | (6) |
| Personnel | - | - | - | - | - | |
| Travel | - | - | - | - | - | |
| Equipment | - | - | - | - | - | |
| Supplies | - | - | - | - | - | |
| Contractual | 86,674 | 86,674 | - | - | - | |
| Construction | - | - | - | - | - | |
| Other Direct Costs | - | - | - | - | - | |
| Indirect Costs | <u>6,890</u> | <u>6,890</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total costs incurred | <u>93,564</u> | <u>93,564</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ -</u> | | | | (7) |

Please see Notes to the Special Purpose Financial Statement
on page 10 of this report.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

Special Purpose Financial Statement

(Continued)

Cooperative Agreement Number – S-PMWRA-17-CA-1088

| | <u>Budget</u> | <u>Actual</u> | <u>Questioned Costs</u> | | | <u>Notes</u> |
|--------------------------|------------------|------------------|-------------------------|--------------------|--------------|--------------|
| | | | <u>Ineligible</u> | <u>Unsupported</u> | <u>Total</u> | |
| Revenues: | | | | | | |
| S-PMWRA-17-CA-1088 | \$ 1,500,000 | \$ 1,293,299 | \$ - | \$ - | \$ - | (5) |
| Total revenues | <u>1,500,000</u> | <u>1,293,299</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Costs incurred: | | | | | | (6) |
| Personnel | 959,979 | 758,629 | - | - | - | |
| Travel | 179,380 | 157,903 | - | - | - | |
| Equipment | - | - | - | - | - | |
| Supplies | 8,720 | 4,367 | - | - | - | |
| Contractual | - | - | - | - | - | |
| Construction | - | - | - | - | - | |
| Other Direct Costs | 253,790 | 226,232 | - | - | - | |
| Indirect Costs | <u>98,131</u> | <u>79,530</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Total costs incurred | <u>1,500,000</u> | <u>1,226,661</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ 66,638</u> | | | | (7) |

Please see Notes to the Special Purpose Financial Statement
on page 10 of this report.

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

ITF Enhancing Human Security Response to Findings

Included on the following pages is ITF Enhancing Human Security's response received to the findings identified in this report.



September 11, 2019
ITF File No.: 04-7-1/2-5/18

Conrad LLP
23161 Lake Center Drive, Suite 200
Lake Forest, CA. 92630

DEAR MADAM SIR,

ITF Enhancing Human Security (ITF) acknowledges receipt of Conrad LLP's ("Conrad") draft findings under financial audits of costs incurred on the subject of Cooperative Agreement No. S-PMWRA-14-CA-1019 for March 1, 2014 through September 30, 2018, Grant No. S-PMWRA-16-GR-1035 for June 2, 2016 through December 31, 2017 and Cooperative Agreement No. S-PMWRA-17-CA-1088 for October 1, 2017 through September 30, 2018 with the Department of State. As requested, please find below ITF management's responses to the findings contained in the draft report.

Finding 2019-01; Exclusion and anti-terrorist checks not performed timely

Questioned costs: None

Response: ITF is fully aware of responsibilities under the Awards to conduct exclusion SAM.gov checks for every sub-recipient before employment/payment. ITF has strictly and timely implemented this regulation under the Awards, but did not properly document them. SAM.gov checks were provided and properly documented subsequently.

Corrective Action: ITF immediately improved the internal control on compliance with additional guidance and training to staff responsible for timely and properly documentation of exclusion and anti-terrorist check for each sub-recipient under the Awards.

Finding 2019-02; Insufficient internal controls over cash management process.

Questioned costs: None

Response: ITF concurs with this finding. As per ITF's Afghanistan Financial Procedures the maximum Petty Cash balance is 3,000 USD (Article 1.1). ITF strives to minimize the use of Petty Cash costs.

Corrective Action: ITF improved the internal control over physical cash managed in Afghanistan with additional internal ITF HQ check and oversight during ITF HQ presence in Kabul, Afghanistan (on quarterly basis at least).

Signature of ITF Authorized Representative:



Tomaž Lovrenčič, ITF Director

A ITF Enhancing
Human Security
Trg republike 3
1000 Ljubljana
Slovenia
T +386 1 2518 580
E info@itf.si
W www.itf.si

ITF ENHANCING HUMAN SECURITY

Cooperative Agreement Nos. S-PMWRA-14-CA-1019; S-PMWRA-17-CA-1088; and
Grant No. S-PMWRA-16-GR-1035
Capacity Support to Mine Action Coordination and Transition in Afghanistan, and Mine Detection
Centre Polyclinic Support

For the Period March 1, 2014 to September 30, 2018

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

ITF partially disagreed with one finding and recommendation. We have reviewed management's responses and provided the following rebuttals to which ITF disagreed with the findings.

2019-01: ITF stated that exclusion checks were performed prior to purchase/hire, but acknowledges that no documentation of exclusion and anti-terrorist checks were retained for checks performed, prior to execution of vendor/employee agreements.

Auditor Rebuttal: ITF states that they performed the exclusion and anti-terrorist checks prior to execution of vendor/employee agreements. However, in the absence of supporting documentation we are unable to substantiate that the checks were performed in a timely manner. Accordingly, our finding, cause and recommendations remain unchanged.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

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

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

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

- Web: www.sigar.mil/fraud
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- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

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