

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-14 Financial Audit

USAID's Rural Finance and Cooperative
Development Project: Audit of Costs Incurred
by World Council of Credit Unions, Inc.

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



DECEMBER
2013



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 16, 2013

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development

Mr. William Hammink
Afghanistan Mission Director, U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by World Council of Credit Unions, Inc. (WOCCU) under a contract with the United States Agency for International Development's (USAID)-funded Rural Finance and Cooperative Development (RUFCD) project.¹ The audit covered the period December 6, 2009, through December 5, 2012, and was performed by Crowe Horwath. It covered \$41,047,327 in expenditures.

The project's purpose was to expand access to credit markets by providing loans to small businesses, farmers, low and middle income households, and women in southern and eastern Afghanistan. This effort was completed through expansion of the Islamic Investment and Finance Cooperative Network.²

The objectives of this financial audit were to

- render an opinion on the fair presentation of WOCCU's Fund Accountability Statement;³
- determine and report on whether WOCCU has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in WOCCU's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of their audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Crowe Horwath's audit results and found them to be in accordance with generally accepted government auditing standards.

Crowe Horwath found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract and identified no findings from prior audits or assessments for follow-up or corrective action. However, Crowe Horwath identified three material weaknesses in internal control, three significant deficiencies in internal control, and five instances of material noncompliance. Where internal control and compliance findings pertained to the same matter, they were

¹ USAID contract 306-C-00-09-00531-00 provided loans to specified segments of Afghan society.

² The Islamic Investment and Finance Cooperative Network is comprised of lending and savings service providers, which are primarily located in poppy-production areas, such as Kandahar, Helmand, Uruzgan, and Kunar provinces.

³ The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

consolidated within a single finding. These findings prompted the auditors to question a total of \$97,363 in unsupported costs.⁴ The audit did not identify any ineligible costs.⁵ Table 1 summarizes the questioned costs.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Personnel	\$41,737		\$41,737
Equipment/Supplies	\$43,488		\$43,488
Sub grantees	\$12,138		\$12,138
Totals	\$97,363	\$0	\$97,363

In addition, Crowe Horwath identified an instance where WOCCU had not remitted an estimated \$1,053 in interest on advances provided by USAID.

Given the results of the audit, SIGAR recommends that the Contracting Officer:

1. Determine the allowability of and recover, as appropriate, \$97,363 in questioned costs identified in the report.
2. Recover, as appropriate, the estimated \$1,053 in interest revenue earned from advances provided.
3. Advise WOCCU to address the six internal control findings identified in the report.
4. Advise WOCCU to address the five compliance findings identified in the report.

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-019)

⁴ Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

⁵ Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by State to make a final determination regarding allowability.



World Council of Credit Unions, Inc.

Fund Accountability Statement

Rural Finance and Cooperative Development (“RUF COD”) Project

For the Period December 6, 2009, through December 5, 2012

(With Independent Auditor’s Report Thereon)

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**Crowe Horwath LLP**

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Transmittal Letter

November 12, 2013

To the Board of Directors and Management of the World Council of Credit Unions, Inc.
5710 Mineral Point Road
Madison, Wisconsin 53705

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of the World Council of Credit Union's ("WOCCU") contract with the United States Agency for International Development funding the Rural Finance and Cooperative Development ("RUF COD") project.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Fund Accountability Statement, report on internal control, and report on compliance. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations provided by WOCCU and the Office of the Special Inspector General for Afghanistan Reconstruction both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated into the final report. Modifications were made to the initial findings reported in the draft report following our review of management's responses and the accompanying supporting documentation, as appropriate.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of WOCCU's RUF COD project.

Sincerely,

A handwritten signature in black ink that reads "John C. Weber".

John Weber, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

The World Council of Credit Unions, Inc. (“WOCCU”) entered into a cost plus fixed fee contract with the United States Agency for International Development (“USAID”) to expand access to credit markets by providing loans to small businesses, farmers, low and middle income households, and women in southern and eastern Afghanistan. This was expected to be completed primarily through expansion of the Islamic Investment and Finance Cooperative (“IIFC”) network. The contract – 306-C-00-09-00531-00 – incorporated an initial project budget and ceiling price of \$60,470,552, inclusive of costs for reimbursement and a fixed fee. The funds were set aside for an initial period of performance established as December 6, 2009, through December 5, 2010. USAID exercised two optional extension years and granted fifteen modifications subsequent to execution of the initial contract that resulted in a final project completion date of December 5, 2012, and a final ceiling price of \$46,187,445. WOCCU expended \$41,047,327 throughout the contract period. The project was entitled the Rural Finance and Cooperative Development project (“RUF COD”).

Throughout the three years that the contract work was performed, WOCCU collaborated with citizens in Afghanistan, USAID, local governments, and the IIFCs. As reported in WOCCU’s final report on the RUF COD project, results (unaudited by Crowe) included, but were not limited to:

- Twenty-five remaining active IIFCs as of December 2012 with seven points of service in fourteen separate provinces;
- A combined IIFC membership of 91,291, including 12,682 women;
- Provision of more than 100,000 loans to individuals and organizations in various lines of business; and
- Creation of 153,694 new jobs.

Project work concluded in December 2012, and the project has been closed.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of WOCCU’s RUF COD project.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Task ordered by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Internal Controls

Evaluate and obtain a sufficient understanding of the audited entity’s internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 2 – Compliance

Perform tests to determine whether the audited entity complied, in all material respects, with the award 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.

Audit Objective 3 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the fund accountability statement.

Audit Objective 4 – Fund Accountability Statement

Express an opinion on whether the Fund Accountability Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Scope

The scope of the audit included the period December 6, 2009, through December 5, 2012, for the RUFOD project. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Fund Accountability Statement ("FAS") and evaluation of the presentation, content, and underlying records of the FAS. The audit included reviewing the financial records that support the FAS to determine if there were material misstatements and if the FAS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Period of Availability of Federal Funds;
- Procurement;
- Program Income;
- Reporting; and
- Special Tests and Provisions, including matters pertaining to disposition of loan capital at the conclusion of the project, separate accounting of U.S. project funds from other funding sources, and vetting of contractors and subgrantees to determine if they are or were suspected of potentially supporting or funding terrorist activities.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the FAS, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit findings and review comments.

For purposes of meeting Audit Objective 1 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by

WOCCU. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 2 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract executed by and between WOCCU and USAID, the Federal Acquisition Regulation (“FAR”), the USAID Acquisition Regulation (“AIDAR”), and supplemental guidance provided to WOCCU by USAID regarding advance payment procedures – the criteria against which to test the FAS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, cash drawdowns and advance payment requests submitted to USAID, procurements, property and equipment dispositions, cash disbursements, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess WOCCU's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements (“NICRA”) and associated contract restrictions.

To obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action, Crowe inquired of WOCCU and USAID regarding prior audits and reviews. One compliance review of the RUFOD project's procurement and vetting procedures was completed.

With regard to Audit Objective 4 pertaining to the FAS, transactions were selected from the financial records underlying the FAS and the transactions were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the FAS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified seven findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, and/or (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract. Other matters that did not meet the criteria were either reported within a management letter dated November 12, 2013, or were communicated verbally to WOCCU.

Crowe also reported on both WOCCU's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. Three material weaknesses in internal control, three significant deficiencies in internal control, and five instances of material noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$97,363 in costs was questioned as presented in **TABLE A** contained herein.

Finding 2013-03 includes \$1,053 in estimated interest that is payable to the Government based on WOCCU's carrying excess cash for multiple periods during the contract's period of performance. The amount represents foregone interest that would have been received or earned by the Government and does not have an impact on the costs incurred.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to WOCCU's financial performance under the contract. WOCCU provided a copy of one compliance review report that was completed along with management's responses. Per communications with WOCCU and USAID, USAID has neither issued a final disposition nor advised WOCCU regarding required corrective action. Crowe, therefore, limited its procedures to conducting reviews of the audit documentation obtained during the course of its audit to determine if the matters reported in the compliance review report were repeated or observed.

Crowe issued an unqualified opinion on the FAS.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2013-01	Employee Billing Records and Approvals	\$41,737	\$41,737
2013-02	Contracting Officer Approval of Equipment and Property Purchases	\$43,488	\$85,225
2013-03	Excess Cash Balances	\$0	\$85,225
2013-04	Documentation of Disbursements to Subgrantees	\$12,138	\$97,363
2013-05	Foreign Currency Exchanges	\$0	\$97,363
2013-06	Subgrantee Monitoring	\$0	\$97,363
2013-07	Verification of Vendor and Employees' Existence	Indeterminable	\$97,363
Total Questioned Costs			\$97,363

Summary of Management Comments

WOCCU generally agreed with the facts underlying the findings, as presented. Additional documentation was provided in support of requested modifications to findings 2013-01 and 2013-4. WOCCU also provided additional context for the findings, including references to actions taken by the Chief of Party during the contract's period of performance and regarding the working environment in Afghanistan.

References to Appendices

The auditor's reports are supplemented by two appendices. **Appendix A** includes a schedule identifying the months in which excess cash was held by WOCCU, and also presents the calculation of imputed interest resulting from excess cash balances as referenced in Finding 2013-03. **Appendix B** includes the Views of Responsible Officials, which are management's responses to the findings presented within the report.

INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

To the Board of Directors and Management of the World Council of Credit Unions, Inc.
5710 Mineral Point Road
Madison, Wisconsin 53705

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

Report on the Fund Accountability Statement

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 Fund Accountability Statement ("the Statement") of the World Council of Credit Unions, Inc. ("WOCCU") and related notes to the Statement, for the period December 6, 2009, through December 5, 2012, with respect to the Rural Finance and Cooperative Development ("RUF COD") project funded by contract number 306-C-00-09-00531-00. We have issued our report thereon dated November 12, 2013.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix V of Solicitation ID05130041 ("Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

(Continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, program revenues and costs incurred for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and on the basis of accounting described in Note 2.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The schedule was prepared by WOCCU in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract and presents those expenditures and fixed fee payments as permitted under the terms of contract number 306-C-00-09-00531-00, 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 contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated November 12, 2013, on our consideration of WOCCU's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Crowe Horwath LLP

November 12, 2013
Washington, D.C.

Fund Accountability Statement

World Council of Credit Unions, Inc.

Contract No. 306-C-00-09-00531

For the Period December 6, 2009, through December 5, 2012

		Budget		Actual			Questioned Costs	
						Ineligible	Unsupported	Notes
<i>Revenues</i>								
USAID - 306-C-00-09-00531	\$	46,187,445	\$	41,047,327				
Total Revenue		46,187,445		41,047,327				
<i>Costs Incurred</i>								
Technical Assistance								
Salaries	\$	3,121,040	\$	2,950,154			\$ 41,737	A
Benefits		931,593		845,603			-	
Allowances		1,592,654		1,530,671			-	
Consultants/Contracted Services		9,337,015		8,493,744			-	
Travel/Relocation		357,143		310,337			-	
Equipment		248,320		246,001			43,488	B
Training		74,320		71,021			-	
Other Direct Costs		2,578,492		2,199,907			-	
Indirect Costs		4,235,582		3,779,761			-	
Technical Assistance								
Development Grants								
Development Grants		6,327,231		4,887,270			12,138	C
Subordinated Investment Funds		16,462,609		14,811,412				
Development Grants								
Contract Fixed Fee		921,446		921,446				
Total Costs Incurred		46,187,445		41,047,327			97,363	
Fund Balance	\$	-	\$	-				

The accompanying notes to the Fund Accountability Statement are an integral part of this Statement.

World Council of Credit Unions, Inc.
Notes to the Fund Accountability Statement
For the Period December 6, 2009, through December 5, 2012

Note 1. Basis of Presentation

The accompanying Fund Accountability Statement (the "Statement") includes costs incurred under Contract Number 306-C-00-09-00531-00 for the Rural Finance and Cooperative Development ("RUF COD") project for the period December 6, 2009, through December 5, 2012. Because the Statement presents only a selected portion of the operations of the World Council of Credit Unions, Inc. ("WOCCU"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of WOCCU. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement, and the requirements of Section 52.216-8 of the Federal Acquisition Regulation pertaining to fixed fee contracts.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars ("USD") were required for those transactions that occurred in the local currency. WOCCU's accounting policy to accurately record project expenses states that the accounting specialist will verify exchange rate calculations for accuracy and reasonableness and compare them to prior months or current exchange rates found online. For the RUF COD project, all exchange rate conversions were done in the field. Cash advances to the field were all done in USD and expenses were reported back in USD. Supporting documentation for the field expenses included exchange rate conversions on each voucher and they were reviewed for accuracy and reasonableness.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which WOCCU is entitled to receive from USAID for allowable, eligible costs incurred under the contract during the period of performance and the fixed fee amount approved in the contract.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved contract budget adopted as a component of the Modification Number 15 to the contract dated October 17, 2012.

(Continued)

Note 6. Fund Balance

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

Note 7. Currency

All amounts presented are shown in United States dollars - the reporting currency of WOCCU.

Note 8. Questioned Costs

Questioned costs are those costs that are questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) where, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Questioned costs are presented in the Statement in two categories: unsupported and ineligible costs. Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the allowability and accuracy of costs was not made available. Ineligible costs are those costs that the auditor has determined to be unallowable or inaccurate and recommended for exclusion from the Statement and for a final determination by the USAID Contracting Officer.

Note 9. Subsequent Events

WOCCU Management has performed an analysis of the activities and transactions subsequent to the December 6, 2009, through December 5, 2012, period of performance. Management has performed its analysis through November 12, 2013.

Notes to the Questioned Costs Presented on the Fund Accountability Statement¹

Note A. Allowable Costs: Employee Billing Records

Finding 2013-01 identified \$41,737 in questioned costs that resulted from missing employee billing records (i.e., timesheets) and billing records that were signed by neither the supervisor nor the employee.

Note B. Contracting Officer Approval of Equipment and Property Purchases

Finding 2013-02 questions \$43,488 in costs associated with equipment and property purchased for the contract, but for which documentation of the Contracting Officer's approval was not obtained.

Note C. Cash Management: Documentation of Disbursements to Subgrantees

Finding 2013-04 questions \$12,138 in costs recorded for subgrantee payments, but for which WOCCU could not provide adequate evidence showing that the Federal funds were provided to the subgrantees by the field office.

¹ Notes to the Questioned Costs Presented on the Fund Accountability Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management of the World Council of Credit Unions, Inc.
5710 Mineral Point Road
Madison, Wisconsin 53705

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 Fund Accountability Statement ("the Statement" of the World Council of Credit Unions, Inc. ("WOCCU") and related notes to the Statement, for the period December 6, 2009, through December 5, 2012, with respect to the Rural Finance and Cooperative Development ("RUF COD") project funded by contract number 306-C-00-09-00531-00. We have issued our report thereon dated November 12, 2013.

Internal Control over Financial Reporting

WOCCU'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 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period December 6, 2009, through December 5, 2012, we considered WOCCU's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of WOCCU's internal control. Accordingly, we do not express an opinion on the effectiveness of WOCCU's internal control.

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

(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2013-01, 2013-03, and 2013-04 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies noted in Findings 2013-02, 2013-06, and 2013-07 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We noted certain matters that we reported to WOCCU's management in a separate letter dated November 12, 2013.

WOCCU's Response to Findings

WOCCU's responses to the findings identified in our audit are attached as Appendix B to this report. We did not audit WOCCU's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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



Crowe Horwath LLP

November 12, 2013
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of the World Council of Credit Unions, Inc.
5710 Mineral Point Road
Madison, Wisconsin 53705

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 Fund Accountability Statement ("the Statement") of the World Council of Credit Unions, Inc. ("WOCCU") and related notes to the Statement, for the period December 6, 2009, through December 5, 2012, with respect to the Rural Finance and Cooperative Development ("RUF COD") project funded by contract number 306-C-00-09-00531-00. We have issued our report thereon dated November 12, 2013.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract are the responsibility of the management of the World Council of Credit Unions, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2013-01, 2013-02, 2013-03, 2013-04, and 2013-05 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we reported to WOCCU's management in a separate letter dated November 12, 2013.

WOCCU's Response to Findings

WOCCU's responses to the findings identified in our audit are attached as Appendix B to this report. We did not audit WOCCU's responses and, accordingly, we express no opinion on them.

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 and compliance. Accordingly, this communication is not suitable for any other purpose.

(Continued)

Restriction on Use

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



Crowe Horwath LLP

November 12, 2013
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2013-01: Employee Billing Records and Approvals

Material Weakness and Non-Compliance

Criteria: Charges to awards for salaries and wages, per OMB Circular A-122, Attachment B, Section 8(m), must be based on documented payrolls approved by a responsible official of the organization, and must be supported by reports that meet the following standards:

- Reflect an after-the-fact distribution of the actual activity of each employee;
- Account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization;
- Signed by the individual employee or by a supervisor with first-hand knowledge of the activities performed by the employee;
- Be prepared at least monthly and coincide with one or more pay periods; and
- For nonprofessional employees, in addition to the above, must be supported by records indicating the total number of hours worked each day.

In addition, WOCCU's "Accounting Documentation, Contracts, and Employment Letters" policy presents the following requirement:

B. Employee billing records – All employees are required to complete monthly billing records. These are used as documentation for recording leave time for salaried employees and to allocate salaries and benefits to the various departments (cost centers). All employees are required to submit their billing record to Accounting within five business days after the close of the month. The employee's direct supervisor is responsible for reviewing and signing the billing records, verifying the days worked, and cost centers charged.

C. Employee timesheets – Hourly employees are required to complete a bi-weekly timesheet. These are used as documentation for recording leave time for hourly individuals and to produce their bi-weekly payroll checks. Timesheets must be submitted to Accounting no later than 5 pm on the Friday preceding each scheduled payroll date. The employee's direct supervisor is responsible for reviewing and signing the timesheets and verifying the hours worked.

Condition: During review of sixty-two personnel cost transactions, five billing records could not be provided. In the absence of employee time records, it could not be established that the individual was working on the project at the time and whether the benefit was fully allocable to the RUF COD project.

An additional six billing records were signed by neither the employee nor the supervisor. WOCCU provided copies of general ledger entries that were signed by the project manager along with the unsigned timecards. However, using the information available and the RUF COD organizational chart provided by WOCCU, it could not be determined that the project manager had first-hand knowledge of the activities performed by the employees. The employees represented the following components of the organizational chart: Technical Advisors – Start Up and Governance; Technical Advisors – Operations & Accounting; and the Director of Finance.

Six billing records were not signed by the employee. Per WOCCU, the timecards were submitted via email due to the employees not being based in Madison. The email correspondence including the billing record submissions was, however, deleted and unavailable for audit.

Lastly, fourteen billing records were not signed by the employee's supervisor. The allocation of payroll charges was, therefore, inadequately supported. The total value of transactions that were not fully supported by employee time records is \$102,443.

(Continued)

The following table summarizes the transactions in question:

Period	Date	Transaction Description	Amount	Issue
07-10	8/20/2010	AFII: 07/10 Local Salaries	\$897	Missing billing record
06-10	7/21/2010	AFII: 06/10 Local Salaries	\$3,892	Missing billing record
08-10	9/14/2010	AFII: 08/10 Local Salaries	\$3,953	Missing billing record
06-10	7/21/2010	AFII: 06/10 Local Salaries	\$9,289	Missing billing record
11-11	12/15/2011	AFII: 11/11 DG Salaries & Benf	\$11,510	Missing billing record
10-10	11/9/2010	██████████ 10/10 danger pay	\$148	Neither the employee nor the supervisor signed the billing record.
06-10	7/13/2010	██████████ 06/10 salary	\$2,008	Neither the employee nor the supervisor signed the billing record.
06-10	7/13/2010	██████████ 06/10 salary	\$2,425	Neither the employee nor the supervisor signed the billing record.
06-10	7/13/2010	██████████ 06/10 salary	\$3,334	Neither the employee nor the supervisor signed the billing record.
05-10	6/8/2010	██████████ 5/10 salary	\$4,167	Neither the employee nor the supervisor signed the billing record.
05-10	6/16/2010	██████████ 05/10 benefits	\$114	Neither the employee nor the supervisor signed the billing record.
09-10	9/24/2010	Abra Check Date: 09/24/2010	\$4,569	Unsigned by employee
10-10	10/8/2010	Abra Check Date: 10/08/2010	\$4,569	Unsigned by employee
11-10	11/19/2010	Abra Check Date: 11/19/2010	\$4,569	Unsigned by employee
11-10	11/5/2010	Abra Check Date: 11/05/2010	\$4,569	Unsigned by employee
08-10	9/14/2010	BL Sal/FB Trf 08/10	\$14,330	Unsigned by employee

(Continued)

Period	Date	Transaction Description	Amount	Issue
11-10	12/8/2010	██████████ 11/10 salary	\$4,167	Unsigned by employee
07-10	8/18/2010	██████████ 07/10 salary	\$538	Unsigned by supervisor
10-11	11/14/2011	AFII: 10/11 Local Benefits	\$167	Unsigned by supervisor
12-10	1/10/2011	██████████ 12/10 salary	\$3,657	Unsigned by supervisor
04-10	5/18/2010	██████████ 04/10 salary	\$1,042	Unsigned by supervisor
05-10	6/16/2010	██████████ 05/10 salary	\$644	Unsigned by supervisor
05-10	6/16/2010	██████████ 05/10 salary	\$644	Unsigned by supervisor
07-10	8/5/2010	██████████ 07/10 salary	\$2,540	Unsigned by supervisor
08-10	9/9/2010	██████████ 08/10 salary	\$2,513	Unsigned by supervisor
04-10	5/14/2010	AFII: 04/10 Local Salaries	\$2,259	Unsigned by supervisor
05-10	6/16/2010	██████████ 05/10 benefits	\$114	Unsigned by supervisor
01-11	2/17/2011	AFII: 01/11 Local Salaries	\$4,280	Unsigned by supervisor
04-11	5/12/2011	AFII: 04/11 Local Salaries	\$4,474	Unsigned by supervisor
03-11	4/11/2011	AFII: 03/11 Local Benefits	\$904	Unsigned by supervisor
11-11	12/15/2011	AFII: 11/11 DG Salaries & Benf	\$157	Unsigned by supervisor
TOTAL:			\$102,443	

In addition, one employee's (██████████) timesheet noted above includes four hours of time worked that was unbillable. However, 100 percent of the employee's payroll costs were charged to the RUFOD project. The resultant overcharge was \$61 and is included in the total questioned cost.

Questioned costs: \$41,737 represents the sum of costs associated with missing billing records and billing records that were signed by neither the employee nor the supervisor as required by Federal regulations.

The remaining \$60,706 of the \$102,443 is not questioned as it did not violate the applicable Federal regulation but rather represents a breakdown in internal controls and thus presents a risk of misstatement or misallocation of costs.

Effect: WOCCU may have obtained funds from USAID for work that was not conducted on the RUFOD project and/or may have overcharged the Government thus reducing the amount of funds available for projects in-country.

Cause: WOCCU indicated that the field office did not provide five timesheets during the time that the project was winding down due to human error as it focused on project closeout efforts. WOCCU also understood that timesheets would not be required to be retained in support of employees receiving holiday bonus payments. Further, electronic records (i.e. email correspondence) showing that employees provided their billing records to WOCCU were deleted due to the time elapsed between the pay periods and the audit.

(Continued)

The inclusion of unbillable time by employee [REDACTED] was, per WOCCU, a clerical error. It is unclear why other billing records were unsigned by either the employee or the supervisor.

Recommendation: WOCCU should establish a monitoring procedure that includes periodic reviews of employee billing records to increase the likelihood that missing, unsigned, or unapproved billing records will be identified during the contract period.

We further recommend that WOCCU provide the supporting documentation for the missing billing records and evidence of billing record approval or remit payment of \$41,737 to the Government.

(Continued)

Finding 2013-02: Contracting Officer Approval to Purchase Equipment and Property

Significant Deficiency and Non-Compliance

Criteria: Pursuant to Section H.8 of the contract with USAID, Contracting Officer review and approval is required for the purchase of non-expendable property and information technology resource purchases. Within AIDAR 752.245-71, USAID defines non-expendable property as “property which is complete in itself, does not lose its identity or becomes a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of \$500 or more.”

Condition: WOCCU received USAID approval for the purchase of 139 non-expendable property and information technology items with a projected cost of \$203,034. We noted, eight of fourteen items that required the prior approval of the Contracting Officer were not identified on the approved list of purchases. WOCCU did not provide alternative documentation showing that the Contracting Officer approved the purchases. The items that were not approved by the Contracting Officer included:

- Five generators with a combined value of \$39,892;
- Two water tanks with a value of \$2,100;
- One motorcycle with a value of \$975; and
- One refrigerator with a value of \$521.

Questioned costs: \$43,488

Effect: Project funds may have been used to purchase non-expendable property items that USAID did not consider to be reasonable or necessary to execute the project’s scope thereby reducing funds available to contribute to the project’s goals and objectives.

Cause: WOCCU provided an initial request for purchasing approval to USAID, but did not consider an additional request to be necessary.

Recommendation: We recommend that WOCCU either provide documentation of prior approval by the contracting officer for the items noted or remit payment to the Government in the amount of \$43,488.

Finding 2013-03: Excess Cash Balances

Material Weakness and Non-Compliance

Criteria: The *Guidelines on USAID Cash Advance Policies and Procedures* provided to WOCCU by USAID presents the following guidance:

- (a) Advances shall be limited to the minimum amounts needed to meet current disbursement needs (generally 30 days) and shall be scheduled so that the funds are available to the Contractor as close as is administratively feasible to the actual disbursements by the contractor for program costs.
- (b) Advances made by the contractor to sub-contractors or the contractor's field offices shall conform substantially to the same standards of timing and amount as apply to cash advances by USAID to the main contractor.
- (c) After receipt of the initial advance, the contractor shall submit a Standard Form 1034 for each upcoming month (30 day period), with the statement "Request for Advance" printed at the top of the form. The contractor may submit a set of these forms on a quarterly basis (i.e. submission of three SF 1034s one for each month in the upcoming quarter).
- (d) At the end of each quarter the contractor shall submit a SF 1034 (marked "Liquidation of Advances") to liquidate the advances of the previous quarter. The contractor may submit a new set of SF 1034s ("Request for Advance") once the "Liquidation of Advances" has been submitted. Each SF 1034 shall be identified by the appropriate award number.

Condition: WOCCU submitted standard form 1034 (SF 1034), *Public Voucher for Purchases and Services Other Than Personal*, on a periodic basis throughout the project to obtain advance funding for subordinated loans and subgrantee payments. The amounts requested were based on estimates provided to WOCCU's headquarters by the field office. WOCCU's headquarters prepared the SF 1034 and, upon review and approval by management, submitted the request to USAID. Upon receipt of the payment from USAID, WOCCU's headquarters wired funds to the field office. The field office subsequently disbursed funds upon receipt and review of invoices from each subgrantee and for agreed-upon loan amounts rather than releasing the full requested amount to each entity. Using the transaction-based approach resulted in some funds being carried forward to subsequent months and WOCCU's holding Federal cash for greater than thirty days. The field office did not comply with the timing standards prescribed by USAID.

Questioned costs: None. Imputed interest on excess cash balances was calculated as \$1,053.

Effect: WOCCU overcharged the Government by drawing down funds on a periodic basis without expending the previous balance of remaining cash. Due to the excess drawdowns, the Government lost approximately \$1,053 in interest.

Cause: WOCCU understood that the liquidation reports were sufficient for purposes of demonstrating the cash balance. Excess cash balances were the result of actual costs being less than the estimated amounts.

Recommendation: We recommend that WOCCU remit the imputed interest amount of \$1,053 to the Government. Procedurally, we recommend that WOCCU develop a policy to conduct a review of remaining funds from previous cash advances prior to requesting additional funds and incorporate these amounts into the calculation of cash needs within the next thirty days. We further recommend that WOCCU develop a policy mandating the deposit of advanced cash into interest-bearing accounts and, as appropriate, remit interest payments to the Government on a periodic basis to reduce the likelihood of interest losses by the Government in the future.

(Continued)

Finding 2013-04: Documentation of Disbursements to Subgrantees

Material Weakness and Non-Compliance

Criteria: Pursuant to OMB Circular A-122 as applicable to WOCCU under the provisions of 48 CFR Subpart 31.702, to be allowable, costs must be adequately documented and must be allocable in that they must be incurred specifically for the award.

In addition, OMB Circular A-133 notes management is responsible for establishing and maintaining a system of internal control that provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with the terms and conditions of the contract; and transactions are properly recorded

Condition: WOCCU submitted funding requests to USAID on behalf of itself and its subgrantees. For thirty disbursements, WOCCU could not provide adequate supporting documentation to show that the full amount of funds reported as being disbursed to subgrantees was paid by the WOCCU field office and received by the subgrantees for use on project activities.

Documentation provided for four of the items in question showed that the IIFCs disbursed funds to vendors and/or employees; however, the support did not demonstrate that the source of the funds making the payments was the Federal dollars provided to WOCCU's headquarters and subsequently wired to the field office for disbursement to subgrantees.

The following table summarizes the specific transactions for which the supporting documentation was inadequate to conclude that the funds provided by USAID were received by the IIFCs and used for the intended purposes:

IIFC/Subgrantee	Corresponding SF 1034 Request Month	Requested Funding	Total Actual Disbursements In Question	Comments
██████████	November 2010	\$3,822	\$783	The amount in question reflects the net of the total disbursement (\$3,662) less payroll and fringe payments for which support was provided (\$2,879).
██████████	May 2011	\$8,500	\$4,088	None
██████████	May 2011	\$8,500	\$6,435	None
██████████	May 2011	\$8,500	\$832	None
TOTAL:				\$12,138

In addition to the matters noted above, the support for the ██████████ disbursements included five disbursements of cash for which the individual preparing the petty cash disbursement was not identified; rather, only the recipient of the funds and the approver were noted on the disbursement forms. For one additional component of the disbursements, the individual receiving the funds was also identified as the recipient of the cash thus suggesting that the individual was permitted to approve a payment to him- or herself. These matters are considered to be contrary to sound internal control practices intended to help ensure compliance with Federal regulations and to detect and prevent fraud, waste, and abuse.

Questioned costs: \$12,138

Effect: Funds may not have been provided to the intended parties and used for the intended purposes.

Cause: WOCCU was unaware that documentation showing the transfer of funds to subgrantees should be retained, and the field office is no longer open which limits the availability of information not previously requested to be provided.

Recommendation: We recommend that WOCCU refund the Government for those costs that are unsupported by cash receipt documentation. WOCCU should document a procedure specifying the types of documentation that should be retained for each disbursement of funds to subgrantees and vendors and specify a period for which such records should be retained.

(Continued)

Finding 2013-05: Foreign Exchange Conversions

Non-Compliance

Criteria: WOCCU's Chief of Party was required to obtain written guidance from the Mission Director regarding the method for converting U.S. dollars to local currency upon arrival in Afghanistan. AIDAR 752.7010 states: "Upon arrival in the Cooperation Country, and from time to time as appropriate, the Contractor's Chief of Party shall consult with the Mission Director who shall provide, in writing, the procedure the Contractor and its employees shall follow in the conversion of United States dollars to local currency. This may include, but is not limited to, the conversion of said currency through the cognizant U.S. Disbursing Officer or Mission Controller, as appropriate."

Condition: WOCCU indicated that the Afghanistan International Bank ("AIB") rates were used by the field for conversions of U.S. dollars to Afghanis ("Afs") and the home office conducts reviews of exchange rates for reasonableness using the rates published by OANDA Corporation. To conduct conversions, WOCCU calculates a weighted average exchange rate based on rates realized during a given time period and does not use the actual spot rates existing on the date of each conversion. By utilizing a weighted average approach, foreign currency conversions result in greater or less costs being recorded to the project than would be realized through a conversion at the spot rate on each payment date.

Questioned costs: None

Effect: The U.S. Government may have been overcharged as a result of the weighted average exchange rate being used.

Cause: WOCCU stated that it is the organization's policy to use a weighted average system for all donor-funded projects to account for exchanges of currency. With regard to the meeting with the Mission to discuss the USAID-prescribed currency exchange process, WOCCU noted that the activity would have been completed by the Chief of Party and documentation of such a meeting is not retained in the headquarters files.

Recommendation: We recommend that WOCCU establish a policy requiring the retention of documentation of the Chief of Party's meeting with the Mission during which the exchange rate conversion process established by or agreed to by USAID is communicated. In addition, the documentation should be provided to those individuals responsible for financial management and accounting for costs incurred under the contract.

Finding 2013-06: Subgrantee Monitoring

Significant Deficiency

Criteria: Pursuant to Section H.21 of the contract with USAID, WOCCU must award and administer grants in accordance with 22 CFR Part 226.51, which requires the following:

"(a) Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Section 226.26."

In addition, pursuant to OMB Circular A-122, costs must be reasonable, allocable, and allowable in order to be eligible for reimbursement from Federal funds.

Condition: WOCCU established a process through which it monitored the performance of its subgrantees (including the IIFC Group) in relation to the RUFOD project's goals and objectives and conducted reviews of subgrantee costs. However, WOCCU did not have a documented process in place to determine if subgrantees operated in compliance with other requirements applicable to the award. Specifically, procedures were not executed to understand if costs incurred were reasonable, funds were only provided to entities and individuals who were not suspected of being involved in the support of terrorism and who were neither suspended nor debarred, if subgrantees complied with cash management requirements, and if funds were used to support only the intended goals and objectives of the contract.

WOCCU indicated that compliance-related monitoring was conducted as a component of the ongoing work completed with the IIFCs and the IIFC Group. Due to there not being an established process with clear outputs or deliverables, evidence of the monitoring could not be provided.

Questioned costs: None

Effect: In the absence of a monitoring program that includes compliance-related procedures, WOCCU's subgrantees may have incurred unreasonable costs that would be considered unallowable per the applicable cost principles, funded entities that are suspected of supporting terrorist activities or suspended, debarred, and other excluded parties, or not implemented internal controls to ensure compliance with Federal regulations without WOCCU's knowledge.

Cause: WOCCU believed the use of financial monitoring through the reporting of performance ratios to be adequate monitoring. In addition, compliance monitoring was an ongoing procedure as opposed to a series of discrete, separate events so a written monitoring plan was not developed.

Recommendation: Crowe recommends that WOCCU document and implement monitoring procedures to be conducted by the home office and/or the field office regarding compliance monitoring of subrecipients. Such procedures may include conduct of desk reviews, remote compliance monitoring, on-site monitoring procedures, or a combination thereof.

Finding 2013-07: Employee and Vendor Verification of Existence

Significant Deficiency

Criteria: In accordance with the provisions of OMB Circular A-122, costs must be adequately supported and allocable in order to be considered allowable and eligible for reimbursement. In addition, a cost is allocable if it 1) is incurred specifically for the award; 2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or 3) is necessary to the overall operation of the organization although a direct relationship to any particular cost objective cannot be shown.

Condition: Per review of procedures in place for monitoring subgrantees, loan recipients, and vendors, there was not a process in place to verify the existence of vendors' located in-country. Personnel files were retained for employees that included various data elements, including telephone numbers and addresses. The files did not contain address and telephone information, in each instance.

Using the information provided in personnel files, on vendor invoices, from WOCCU, from the IIFC Group, and from IIFC Kandahar, two of twenty vendors, loan recipients, and subgrantees and two of ten individuals charging time to the contract could not be located or otherwise have their existence verified through first-hand observation or independent, third party resources. Thus, one cannot determine that charges to the contract for goods and services provided by the vendors and employees were legitimate, that the efforts benefited the program, and should be allocated to the contract and reported as contract expenditures

The vendors and individuals who could not be verified were Brothers Hotel, Hizbullah, [REDACTED], and [REDACTED]. Due to the manner in which costs incurred in the field are recorded, the total costs incurred for these individuals and companies could not be readily identified.

Questioned costs: Indeterminable. Due to the manner in which costs incurred in the field are recorded in the headquarters financial system, the total costs incurred for these individuals and companies could not be readily identified.

Effect: The absence of procedures to verify existence and reviewing personnel files to ensure completeness increases the risk that costs may be charged to the contract inappropriately.

Cause: WOCCU relied upon the field office's review of costs incurred for detailed analyses and evaluations of vendors, and invoices were available to support charges which were considered to be acceptable supporting documentation. WOCCU also does not track employees' locations after their employment ends as there is no requirement to do so and does not have a process in place to determine that individuals and vendors exist.

Recommendation: WOCCU should document a policy that mandates the incorporation of a valid physical address and telephone number for local employees' in-country within personnel files. WOCCU should also document a procedure that includes the periodic physical verification of vendors' and employees' work products and offices to ensure that only those individuals who physically exist are submitting costs to WOCCU that are ultimately charged to the contract.

SECTION 2 – Summary Schedule of Prior Audit, Review, and Assessment Findings

Per discussion with WOCCU and USAID, one compliance review had been conducted over RUF COD project activities. The report had been issued and management's responses provided to USAID. However, USAID had not issued a final response regarding required corrective actions or final dispositions in response to the audit findings. In the absence of final instruction from USAID, there were no corrective actions required for follow-up by Crowe Horwath.

APPENDIX A – Schedule of Cash Balances and Calculation of Imputed Interest

Month	Cumulative Cash Receipts	Cumulative Disbursements	Excess Cash Balance (Receipts - Disbursements + 30 Days)	CMIA Daily Interest Rate	Days Outstanding	Interest Amount
Mar-10	\$ 2,410,000.00	\$ 597,000.00	\$ -	0	0	\$ -
Apr-10	2,410,000	597,000	1,813,000	0.0000039	30	212
May-10	4,174,310	2,104,011	305,989	0.0000039	30	36
Jun-10	4,174,310	3,523,727	650,583	0.0000039	30	76
Jul-10	6,634,010	3,585,327	588,983	0.0000039	30	69
Aug-10	6,634,010	4,408,013	2,225,997	0.0000039	30	260
Sep-10	6,634,010	5,338,020	1,295,990	0.0000039	30	152
Oct-10	6,634,010	6,391,897	242,113	0.0000039	30	28
Nov-10	7,552,010	7,076,994	-	0.0000039	0	-
Dec-10	8,589,010	8,239,496	-	0.0000039	0	-
Jan-11	9,485,010	8,519,157	69,853	0.0000039	30	8
Feb-11	9,485,010	9,210,785	274,225	0.0000039	30	32
Mar-11	14,177,010	12,816,402	-	0.0000039	0	-
Apr-11	14,177,010	13,435,300	741,710	0.0000011	30	24
May-11	15,201,010	13,882,107	294,903	0.0000011	30	10
Jun-11	15,201,010	14,082,760	1,118,250	0.0000011	30	37
Jul-11	15,201,010	14,511,021	689,989	0.0000011	30	23
Aug-11	15,858,010	14,685,827	515,183	0.0000011	30	17
Sep-11	15,858,010	15,156,743	701,267	0.0000011	30	23
Oct-11	15,858,010	15,366,475	491,535	0.0000011	30	16
Nov-11	15,858,010	15,905,595	-	0.0000011	0	-
Dec-11	15,858,010	16,022,022	-	0.0000011	0	-
Jan-12	15,858,010	16,040,879	-	0.0000011	0	-
Feb-12	15,858,010	16,040,889	-	0.0000011	0	-
Mar-12	15,858,010	16,040,999	-	0.0000011	0	-
Apr-12	15,858,010	16,040,991	-	0.0000011	0	-
May-12	15,858,010	16,041,060	-	0.0000011	0	-
Jun-12	17,021,825	16,041,204	-	0.0000011	0	-
Jul-12	17,258,694	16,699,114	322,711	0.0000011	30	11
Aug-12	19,658,260	17,084,316	174,377	0.0000011	30	6
Sep-12	19,658,260	19,272,220	386,040	0.0000011	30	13
Oct-12	19,658,260	19,748,627	-	0.0000011	0	-
Nov-12	20,429,396	20,305,992	-	0.0000011	0	-
Dec-12	20,429,396	20,429,396	-	0.0000011	0	-
Total Interest Payable:						\$ 1,053

APPENDIX B - Views of Responsible Officials



November 12, 2013

Crowe Horwath, LLP
1325 G Street NW, Suite 500
Washington, DC 20005-3136

Subject: Financial Audit Report Response

Dear Sirs:

Attached are World Council of Credit Unions' Management responses to the findings in the audit of USAID contract 306-C-00-09-00531-00, "Rural Finance and Cooperative Development."

We would take this opportunity to thank you for the professional and thorough manner in which the audit was carried out.

Please let me know if you have any questions or need any additional information regarding the comments or attachments.

Sincerely,

A handwritten signature in blue ink that reads "Brian Branch". The signature is fluid and cursive.

Brian Branch
President & Chief Executive Officer

**World Council of Credit Unions
Management Response to Findings
RUF COD Audit**

2013-01 Employee Billing Records and Approvals

The procedure in place for the life of the program was that third country national employees in regional offices would submit their billing records to the Kabul office on a monthly basis. Due to the distances involved and travel difficulties, it was not feasible to ship signed paper copies for receipt in a timely manner. The employee's e-mail to which the billing record was an attachment served as the employee's signature and verification of the billing record. From the project start until after the second COP was in place, these billing records were submitted to a Kabul office project employee. Since the project has ended and that employee is no longer employed, we do not have access to the e-mails she received directly from employees with the billing record attachment.

The second Chief of Party recognized the deficiency in the billing record review process and instituted a new procedure in July of 2011. The procedure employed from that time forward required that billing records for third country national staff be submitted to the COP for review and approval before being forwarded to headquarters. This procedure remained in place through the end of the program.

We disagree with the finding that we do not have billing records in support of the Eid bonus paid (as presented in the table as period: 09-10, date: 10/14/2010, transaction description: AFII: 09/10 DG Salaries & Benf, amount: \$4,349) and request that this amount be removed from the questioned costs. We do in fact retain timesheets in support of payments to employees. Documentation was provided to the auditors during their field work and again on October 10 demonstrating that there is a signed timesheet documenting that the employees worked on the project during the time period in question. The auditor's expenditure sample #124 included support for both salary and Eid bonus payments. Salaries were paid with check #240 and the Eid bonuses were paid with check #241. There is one timesheet for each month and that one timesheet serves to support both salary and Eid bonus payments. The signed timesheets were attached to the support for check #240, however they serve as support for the same time period as the Eid bonus. Copies of the relevant documents in support of this questioned transaction are attached here (Attachment 1).

Our policy on document retention, updated in November of 2012, addresses the deletion of e-mails noted in the finding. We will initiate a procedure for periodic review of billing records to verify completeness.

2013-02 Contracting Officer Approval to Purchase Equipment and Property

The generators were purchased on an as needed basis when existing equipment failed. Project staff could not operate without power. However, given that on average it took from twelve to fifteen days to complete the approval process, it was not reasonable to leave personnel without power for that length of time, particularly in insecure areas. We agree with the recommendation to remit payment to the Government of \$43,488.

2013-03 Excess Cash Balance

The project was designed to work in “post kinetic” areas; however, during the life of the contract the security situation in the country was unstable. In many instances although a certain amount of funding was requested for a subgrantee, by the time the SF1034 was processed by USAID, received by WOCCU headquarters and then sent to the Kabul office, the security situation worsened or other unanticipated events had arisen which in our view made it imprudent to disburse the funds to the Afghan entity. Exacerbating this timing issue was the unpredictability of receipt of funds from USAID as processing of the SF1034 request could take anywhere from 4 to 41 days. Exceeding the “generally thirty days” requirement to disburse the funds was a result of our duty to safeguard federal funds. A review of the SF1034 request for advance forms submitted to USAID over the contract period will demonstrate that the advance request forms always adjusted for any undisbursed funds from the previous period. As such, we do not see a need to create a policy as this is already done as a matter of course.

It is already our policy to use interest bearing accounts for project funds. Our basis for selection of AIB for project accounts was that it was a Kabul-based commercial bank that offered branches in other provinces and a broad range of services including international access. This allowed for proper internal controls for transactions between headquarters and Afghanistan.

2013-04 Documentation of Disbursements to Subgrantees

Although we do not have a separate receipt for each funds disbursement to the subgrantees, we do have supporting documentation for all of the subgrantee expenditures.

We do not agree with the questioned costs with respect to [REDACTED] for May 2011 as presented in the table in the audit report. We provided the attached documentation to the auditors during their field work for their cash management sample #18 which provides support for the full amount. We request that the questioned costs of \$1,596 be removed from the audit report. We also request that the sentence beginning, “For one additional item, the funds provided to the subgrantee ...” be stricken from the report as the documentation supporting all of those costs is attached (Attachment 2).

We will initiate a procedure for specifying the types of documentation required for each transaction with subgrantees and vendors and their retention period.

2013-05 Foreign Exchange Conversions

During the life of the contract we used a weighted average currency conversion. The weighted average conversion spreads the fluctuation in currency over the life of the project, thus reducing the risk for over- or under-charging of expenditures to the donor. World Council uses this methodology for all overseas project accounting.

We will create a policy for contracts requiring the Chief of Party to document the foreign currency conversion process established by or agreed to by the USAID Mission upon project start up. The policy will require that the document be distributed to the appropriate staff.

2013-06 Subgrantee Monitoring

One element of the “Afghanization” of RUF COD required by USAID was the transfer of direct monitoring of the individual IIFCs to the IIFC Group. WOCCU closed all of its regional offices when USAID reduced the project budget by about \$17.0 million, so we had to transfer field responsibility for IIFC monitoring to the IIFC Group. That system worked very well. WOCCU and the IIFC Group instituted monthly performance reviews of each IIFC including progress towards individual IIFC work plan targets, financial reporting, loan portfolio monitoring and delinquency control, etc. We will prepare a compliance monitoring checklist and procedure for its implementation in future programs.

2013-07 Employee and Vendor Verification of Existence

We are not aware of a requirement to track the whereabouts of former employees after their employment ends. We documented the personal information for employees upon their engagement. We understand that the auditors requested their affiliate in Kabul to contact the IIFC Group for verification of the two employees mentioned in the audit report. We were puzzled that this verification was not provided by the Group and we do not know who the audit firm contacted at the IIFC Group to request this verification. We attach an e-mail from the Chief Executive Officer of the IIFC Group which confirms the employment dates, phone numbers and address information for both persons whose existence is questioned by the auditors (Attachment 3). We had previously provided their tax ID numbers.

We do not agree that we need to create a policy on incorporating phone numbers and addresses in employment records when this is already being done. As the audit noted that there are instances where the records are incomplete, we will add an item to the project compliance checklist requiring a periodic review to verify that the personnel documentation is complete.

The audit report notes that two vendors could not be confirmed. In both cases, the expenditures were made by a subgrantee, and the subgrantee submitted supporting documentation for the expense. In the case of vendors, verification is provided by having received the product or service.

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