SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 16-28 Financial Audit

Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the Mine Detection Dog Center

MARCH

2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

Between April 1, 2011, and April 1, 2013, the Department of State's Office of Weapons Removal and Abatement awarded six grants totaling more than $10.5 million to the Mine Detection Dog Center (MDC) to support demining activities in Afghanistan. MDC was established in 1989 and is an Afghan non-governmental demining organization. The grants were intended to (1) protect victims of conflict, (2) restore access to land and infrastructure, (3) develop host-nation capacity, and (4) improve conventional weapons stockpile security and management practices.

SIGAR's financial audit, performed by Williams, Adley & Company-DC, LLP (Williams Adley), reviewed $10,581,236 in expenditures charged to the six grants between April 1, 2011, and September 30, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in MDC'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 MDC has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MDC's Special Purpose Financial Statement. See Williams Adley'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 Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2016

Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the Mine Detection Dog Center

SIGAR 16-28-FA

WHAT THE AUDIT FOUND

Williams Adley identified three deficiencies in MDC's internal controls, one of which was considered a material weakness and another a significant deficiency, and six instances of noncompliance with grant terms and laws or regulations, one of which was considered a material instance of noncompliance. MDC used an unsupported allocation methodology to determine payroll costs for individuals working on multiple projects. MDC also lacked sufficient and adequate documentation for certain non-payroll costs, such as training and veterinary costs. As a result of these internal control deficiencies and instances of noncompliance, Williams Adley identified $98,780 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Williams Adley did not identify any ineligible costs—costs prohibited by the grants, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel	$0	$72,303	$72,303
Supplies	$0	$15,777	$15,777
Indirect Costs	$0	$10,700	$10,700
Totals	**$0**	**$98,780**	**$98,780**

Williams Adley obtained and reviewed six prior audit reports, one for each of the grants. Based on its review, Williams Adley concluded that there were no recommendations from those reports that could have a material impact on the Special Purpose Financial Statement or other financial data significant to the objectives of this audit.

Williams Adley issued a modified opinion on MDC's Special Purpose Financial Statement due to the material weakness in the reliability of the payroll system to determine cost reasonableness and the questioned costs detailed in the statement.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible grants officer at State:

1. **Determine the allowability of and recover, as appropriate, $98,780 in total questioned costs identified in the report.**
2. **Advise MDC to address the report's three internal control findings.**
3. **Advise MDC to address the report's six noncompliance findings.**

March 31, 2016

The Honorable John F. Kerry
Secretary of State

The Honorable P. Michael McKinley
U.S. Ambassador to Afghanistan

We contracted with Williams, Adley & Company-DC, LLP (Williams Adley) to audit the costs incurred by the Mine Detection Dog Center (MDC) under six Department of State (State) grants.[1] MDC was established in 1989 and is an Afghan non-governmental demining organization. Williams Adley's audit covered $10,581,236 in expenditures incurred from April 1, 2011, through September 30, 2014. Our contract with Williams Adley 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 grants officer at State:

1. **Determine the allowability of and recover, as appropriate, $98,780 in total questioned costs identified in the report.**
2. **Advise MDC to address the report's three internal control findings.**
3. **Advise MDC to address the report's six noncompliance findings.**

The results of Williams Adley's audit are detailed in the attached report. We reviewed Williams Adley's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MDC's Special Purpose Financial Statement. We also express no opinion on the effectiveness of MDC's internal control or compliance with the grants, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Williams Adley 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 State to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-081)

[1] State awarded grant numbers S-PMWRA-11-GR-0013, S-PMWRA-11-GR-0017, S-PMWRA-12-GR-1014, S-PMWRA-12-GR-1015, S-PMWRA-13-GR-1005, and S-PMWRA-13-GR-1018 to MDC to support demining activities in Afghanistan. The grants were intended to (1) protect victims of conflict, (2) restore access to land and infrastructure, (3) develop host-nation capacity, and (4) improve conventional weapons stockpile security and management practices.

SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

FINANCIAL AUDIT OF COSTS INCURRED BY

Mine Detection Dog Center (MDC)

Awards:

S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017;
S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015;
S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018

Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA)

For the period of:
April 1, 2011 to September 30, 2014

Submitted by

WILLIAMS ADLEY

January 29, 2016

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Transmittal Letter

January 29, 2016

Leadership Team
Mine Detection Dog Center (MDC)
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We hereby provide to you our final report, which reflects results from the procedures we completed during the course of our audit of the Mine Detection Dog Center (MDC) grant numbers S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 with the United States Department of State (USDoS) for its Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) program.

Within the pages that follow, we provide a brief summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement, Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary and any information preceding our reports.

On December 8, 2015 we provided SIGAR a draft report reflecting our audit procedures and results. MDC received a copy of the report on January 5, 2016 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 MDC. MDC'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 MDC's PM/WRA grants.

Sincerely,

Jocelyn Hill

Jocelyn Hill, CPA
Partner

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Summary

Background

The United States Department of State ("State Department") provides funding to grant recipients for services related to reconstruction activities in Afghanistan. Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. As a result, the State Department funded activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

The State Department Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) awarded $10,581,236 to the Mine Detection Dog Center (MDC) for landmine clearing support efforts in Afghanistan under the following grants: S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018.

MDC was established as a non-governmental demining Afghan organization in 1989. MDC works under the coordination of Mine Action Coordination Center for Afghanistan (MACCA). The objective of MDC is to make Afghanistan mine and explosive remnant of war-impact free, where individuals and communities may have a safe living environment.

SIGAR requested an audit of the six grants, and associated modifications, awarded to MDC. The performance period of the grants for audit purposes was April 1, 2011 through September 30, 2014. The principal objective of these grants is to provide a safe environment for Afghan inhabitants and returnees in urban and rural areas, thus providing the facility for the return of internally displaced people to their hometowns, normalization of local socio-economic conditions to pave the way for repatriation, resettlement and the rehabilitation of the country.

The chart below summarizes the purpose of the grants, grant modifications and how the modifications to the grant agreements have affected the scope and grant totals.

MDC Grant Awards with Modifications

Grant Number S-PMWRA-	Final Grant Value (USD)	Grant value	Starting date	End date	Purpose
11-GR-0013	2,500,000	1,000,000	4/1/2011	3/31/2012	**Community Based De-mining Project** Clearance of 3,693,494 square meters of mine and explosive remnants of war (ERW) contaminated residential, agricultural and grazing land in Nangahar and Kandahar provinces of Afghanistan.

Grant Number S-PMWRA-	Final Grant Value (USD)	Grant value	Starting date	End date	Purpose
Mod 1		41,665	4/1/2011	3/31/2012	Incremental funding
Mod 2		1,458,335	4/1/2011	3/31/2012	Close out action on total obligated funds of $2,500,000
11-GR-0017	1,080,000	1,080,000	4/1/2011	3/31/2012	**Community Based De-mining Project** Clearance of 718,085 square meters of mine and ERW contaminated residential, agricultural and grazing land in Nawzad District of Helmand Province of Afghanistan.
Mod 1		0	4/1/2011	3/31/2012	Close out action
12-GR-1014	3,074,341	1,000,000	4/1/2012	3/31/2013	**De-mining Project incrementally funded** Clearance of 4,534,638 square meters of mine and ERW contaminated residential, agricultural and grazing land in different districts of Nangahar and Kandarhar Provinces of Afghanistan.
Mod 1		2,074,341	4/1/2012	3/31/2013	Obligate remaining funds
12-GR-1015	996,667	450,000	4/1/2012	3/31/2013	**Community Based De-mining Project** Clearance of 729,000 square meters of mine and ERW contaminated residential, agricultural and grazing land in the Nawzad District of Helmand Province of Afghanistan.
Mod 1		546,667	4/1/2012	3/31/2013	Obligate remaining funds
Mod 2		0	4/1/2012	3/31/2013	Change in Scope of Work and Budget Realignment for addition of two demining teams.
13-GR-1005	1,430,228	84,186	4/1/2013	9/30/2014	**Community Based De-mining Project** Clearance of 2,084,449 square meters of mine and ERW contaminated residential, agricultural and grazing land in various districts of Takhar Province of Afghanistan.
Mod 1		930,042	4/1/2012	3/31/2013	Incremental funding
Mod 2			4/1/2012	4/30/2013	Budget Realignment and extension of 2x MDG's, 2xDT's, 2x MDS's and Field Office through April 30, 2014.
Mod 3		416,000	4/1/2013	9/30/2014	Cost Amendment to extend Period of Performance and add $416,000 in funding.

Grant Number S-PMWRA-	Final Grant Value (USD)	Grant value	Starting date	End date	Purpose
					Additional outputs per narrative Revised 5 Months Cost Extension
13-GR-1018	1,500,000	100,000	4/1/2013	9/30/2014	**De-mining Project incrementally funded** Clearance of 2,598,686 square meters of mine and ERW contaminated residential, agricultural and grazing land in different districts of the Nangahar Province of Afghanistan.
Mod 1		900,000	4/1/2013	3/31/2014	add incremental funds of $900,000
Mod 2		500,000	4/1/2013	9/30/2014	obligate balance of funds
TOTAL	***10,581,236***				

Work Performed

Williams Adley and Company-DC, LLP (Williams Adley) was contracted by SIGAR to conduct a financial audit of costs incurred by MDC under the six PM/WRA grants and associated modifications as indicated in a Special Purpose Financial Statement, as provided in the above chart.

Objectives

The objectives of the audit were to:

1. Express an opinion on whether the Special Purpose Financial Statement for the grants present fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the grants and generally accepted accounting principles or other comprehensive basis of accounting.

2. Evaluate and obtain a sufficient understanding of MDC's internal control related to the grants; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

3. Perform tests to determine whether MDC complied, in all material respects, with the grants' requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the grant and applicable laws and regulations, including potential fraud or abuse that may have occurred.

4. Determine and report on whether MDC has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

Scope

In general, our scope of work includes the PM/WRA grants and related modifications executed between April 1, 2011 and September 30, 2014, as indicated in the chart above.

For the above grants, the engagement services included:

1. Performing a financial audit of incurred costs by MDC under the 6 grants listed above granted by PM/WRA for de-mining, and weapons and ammunition disposal projects in Afghanistan implemented by MDC.

2. Conducting sufficient testing to express an opinion on the engagement objectives. Our audit included gaining an understanding of the general and application controls in place and organizational capacity of MDC.

   Major areas for review included:

   i. Administrative Procedures and Fraud Risk Assessment
   ii. Budget Management
   iii. Cash Management
   iv. Disbursements and Financial Reporting
   v. Procurement and Inventory Management

3. Performing compliance testing, which included, but was not limited to, activities allowed or dis-allowed; allowable costs/cost principles; cost determination/ indirect costs; cash management; eligibility; equipment and real property management; matching, level of effort and earmarking; period of availability of Federal funds; procurement and suspension and debarment; program income; and reporting.

4. Reviewing transactions for the period from April 1, 2011 to September 30, 2014 and subsequent events and information related to the findings and questioned costs for the audit period.

Methodology

To meet the audit objectives, Williams Adley identified the applicable criteria needed to test the Statement and supporting financial records and documentation through a review of the grants and modifications thereto. The criteria included OMB circulars A-122 and A-133; regulations under Title 2 of the Code of Federal Regulations (CFR), Parts 215 and 230, and 22 CFR, Part 145. In addition, Williams Adley reviewed MDC's organizational charts and reporting hierarchy, policies and procedures, and the status of prior audit report findings to gain an understanding of the normal procedures and system of internal controls established by MDC to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Williams Adley used both random and risk-based sampling techniques to select expenditures and payroll samples to test for allowability of incurred costs, and we reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards. We requested and received supporting documentation for compliance evaluation of incurred costs. We reviewed submitted financial status reports for accuracy and compliance with reporting requirements. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in compliance with the agreed upon indirect cost rate.

Williams Adley employed its affiliate in Afghanistan, Rafaqat Babar & Company (RBCO), to perform testing of source documents in Afghanistan. This arrangement was necessary because MDC maintains several source documents for billings of incurred costs at its headquarters in Kabul, Afghanistan, for which uploading the documentation to our secure website would have created unnecessary delays in the completion of the work and in the level of effort expended to provide the documents. RBCO provided staff auditors to test source documents along with an audit manager to review the work performed by their team in Afghanistan, which was further reviewed by Williams Adley to ensure compliance with Government Auditing Standards. RBCO was not responsible for planning, directing, or reporting on the audit.

Summary of Results

Williams Adley issued a modified opinion on MDC's Special Purpose Financial Statement. Williams Adley also reported on MDC's internal controls and compliance regarding the Statement. Upon completion of our audit procedures, Williams Adley identified 7 findings. Of the 7 findings, 1 exception was considered a material weakness in internal control and materially non-compliant. Of the other 6 findings, 5 were non-compliance deficiencies, one of which was considered a significant deficiency, and 1 was considered an internal control deficiency. When internal control and compliance findings pertained to the same matter, we consolidated them into a single finding. Costs of $98,780 were questioned. The questioned amounts are summarized in the following table:

Table 1: Summary of Questioned Costs

Finding Number	Issue	Unsupported Questioned Cost	Indirect Questioned Cost	Cumulative Questioned Cost
2015-01	Unsupported Payroll Cost	$72,303	$8,823	$81,126
2015-02	Unsupported Disbursement Cost	$15,777	$1,877	$17,654
	TOTALS	$88,080	$10,700	$98,780

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

Summary of Prior Audit Reports

We requested three years of prior audits, assessments, or reviews of MDC that we considered applicable to the scope of our work. We obtained six prior audit reports, one for each of the grants during the period of performance, and read each report to ensure that there were no significant deficiencies or material weaknesses noted.

After reviewing the six prior audits of MDC, we concluded that there were no recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

See Attachment B for additional information on prior findings not deemed material to the Special Purpose Financial Statement or other financial data significant to the audit objectives.

Summary of Management Comments on Audit Report

In responding to the draft audit report, MDC management did not agree with all of the findings and stated that the questioned costs are unfair and hopes that they will be removed from the Audit Report (see Attachment C). Management disagreed with Finding 2015-01 and explained that the payroll allocation was in consideration of multiple donor countries, was designed to be transparent and was adequately supported by payroll records. Nonetheless, management submitted a request to the State Department for acceptance of the payroll allocation used for MDC headquarters staff (Attachment E). Management also requested the removal of the questioned costs detailed in Finding 2015-

02. MDC's offered several explanations to support its position and provided additional documentation subsequent to the fieldwork, which resulted in a reduction of the questioned direct and associated indirect questioned costs by $8,791. The auditors responded to management's comments as detailed in Attachment D to this Audit Report.

Attachments

The auditor's reports are supplemented by five attachments:

Attachment A contains the Consolidating Special Purpose Statement.
Attachment B contains the prior audit reports' recommendations and current status for the reports indicated above.
Attachment C contains MDC's official management response to the draft audit report.
Attachment D contains the auditor's response to management comments.
Attachment E contains MDC's formal request for approval of their payroll system.

WILLIAMS ADLEY

Independent Auditor's Report on the Consolidated Special Purpose Financial Statement

Leadership Team
Mine Detection Dog Center (MDC)
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

Report on the Consolidated Special Purpose Financial Statement

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Mine Detection Dog Center (MDC) contract numbers S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 for the period of April 1, 2011 to September 30, 2014; and the related notes to the statement.

Management's Responsibility for the Consolidated Special Purpose Financial Statement

The accompanying Statement was prepared to present the revenues earned and costs incurred of MDC pursuant to grant numbers S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 as described in Note 3 of the Statement, and is not intended to be a complete presentation of MDC's assets, liabilities, revenues and expenses.

MDC's management is responsible for the preparation and fair presentation of the Statement in accordance with the modified cash basis of accounting as described in Note 4. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Modified Opinion

The results of our tests disclosed the following material weakness and other questioned costs as detailed in the Statement: (1) $81,126 in payroll related costs that are questioned based on the sample we tested; (2) a material weakness in the reliability of the payroll system to determine cost reasonableness based on our projection of results from the statistically valid sample we tested, for which we estimate that $2,824,658 of the total payroll costs may have been charged to the grants on the basis of an unapproved allocation methodology; and (3) $17,654 in non-payroll costs that are not supported with adequate documentation.

Opinion

In our opinion, except for the effects of the matters described in the *Basis for Modified Opinion* paragraph above, the Statement referred to above presents fairly, in all material respects, program revenues and costs incurred and reimbursed under grant numbers S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 for the period of April 1, 2011 to September 30, 2014 in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 4 of the Statement.

Restriction on Use

This report is intended for the information of MDC, the United States Department of State and 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. 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.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued reports dated November 12, 2015 on MDC's internal controls and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

Williams, Adley & Company-DC, LLP

Washington, D.C.
November 12, 2015

Mine Detection Dog Center (MDC)
Consolidated Special Purpose Financial Statement
For the Period of April 1, 2011 to September 30, 2014

	Consolidated[1]		Questioned Amounts		
					Notes
Revenues	**Budget**	**Actual**	**Ineligible**	**Unsupported**	9
S-PMWRA-11-GR-0013	$2,500,000	$2,499,999			2
S-PMWRA-11-GR-0017	$1,080,000	$1,080,001			2
S-PMWRA-12-GR-1014	$3,074,341	$3,074,341			2
S-PMWRA-12-GR-1015	$996,667	$996,667			2
S-PMWRA-13-GR-1005	$1,430,228	$1,430,228			2
S-PMWRA-13-GR-1018	$1,500,000	$1,500,000			2
Total Revenue	**$10,581,236**	**$10,581,236**			
Costs					
Personnel	$4,524,504	$4,455,296		$72,303	8, A
Travel	$1,542,284	$1,521,798			8
Equipment	$111,826	$97,550			5,8
Supplies	$1,120,556	$1,168,181		$15,777	6,8, B
Construction	$157,010	$120,000			8
Other	$2,012,014	$2,084,669			8
Total Direct Charges	**$9,468,194**	**$9,447,494**		**$88,080**	7,A,B
Indirect Costs (NICRA)	$1,113,042	$1,133,742		$10,700	A,B
TOTAL Cost	**$10,566,288**	**$10,581,236**			
Outstanding Balance (deficit)		**$0**[2]	**$0**	**$98,780**	10

The Notes to the Special Purpose Financial Statement are an integral part of the financial statement.

[1] Please refer to Attachment A for a breakdown by award.

[2] The final Statement provided by MDC reflected a deficit of $86,002 for award S-PMWRA-13-GR-1005 and $165,024 for award S-PMWRA-13-GR-1018. Final drawdowns cleared these differences, which were confirmed by MDC.

Notes to the Special Purpose Financial Statement[3]

For the Period April 1, 2011 to September 30, 2014

Note 1. Nature and Status of the Organization
Mine Detection Dog Center (MDC) is a humanitarian Mine Action Organization registered as a non-profit non-political organization under the laws of the Islamic Republic of Afghanistan. It was established as a de-mining organization in the year 1989 with the aim of "Making Afghanistan Mine and ERW impact free" where individuals and communities live in a safe environment conducive to the national development.

Since its establishment, MDC has implemented a considerable number of humanitarian de-mining projects all over Afghanistan; as a result of which over 270 million square meters minefields and battle fields were cleared and handed over to communities to be used for socio economic purposes. The organization has successfully completed many projects under the grant agreements funds received from different donor countries including the United States of America, Federal Republic of Germany, Government of Japan, Government of Afghanistan, United Nations, Canada and Australia.

MDC as a pioneer in the field of de-mining and as the largest mine dog program in Afghanistan has also utilized a complete tool box of mine clearance assets such as Manual Teams, Explosive Ordinance Disposal Teams, Mechanical de-mining units and explosive detection dogs.

Note 2. The Project
Under Grant S-PMWRA-11-GR-0013, the United States Department of State, Bureau of Political Military Affairs, Office of Weapons Removal and Abatement provided a grant amounting USD $2,500,000 for clearance of 3,693,494 square meters of mine and ERW contaminated residential, agricultural and grazing land in Nangahar and Kandahar provinces of Afghanistan.

MDC deployed 6 Mine Dog Groups, 6 Community Based Demining Teams, and 3 Community Based Mine Dog Sets, and successfully cleared a total area of 3,693,494 square meters of planned minefields. A total of 686 different devices were found and safely destroyed.

Under Grant S-PMWRA-11-GR-0017, the United States Department of State, Bureau of Political Military Affairs, Office of Weapons Removal and Abatement provided a grant amounting USD $1,080,000 for clearance of 718,085 square meters of mine and ERW contaminated residential, agricultural and grazing land in Nawzad District of Helmand Province of Afghanistan.

MDC deployed 5 Community Based Demining Teams and 1 Community Based Explosive Disposal Team, and successfully cleared a total area of 839,517 square meters of planned

[3]Numeric notes to the Special Purpose Financial Statement were developed by and are the responsibility of MDC's management.

minefields. A total of 162 different devices were found and safely destroyed.

Under Grant S-PMWRA-13-GR-1005, the United States Department of State, Bureau of Political Military Affairs, Office of Weapons Removal and Abatement provided a grant amounting USD $1,430,228 for clearance of 2,084,449 square meters of mine and ERW contaminated residential, agricultural and grazing land in various districts of Takhar Province of Afghanistan.

MDC deployed 2 Mine Dog Groups (MDGs), 2 Demining Teams (DT), and 2 Mine Dog Sets (MDSs) and successfully cleared a total area of 2,142,824 square meters of planned minefields. A total of 647 different devices were found and safely destroyed.

Under Grant S-PMWRA-12-GR-1014, the United States Department of State, Bureau of Political Military Affairs, Office of Weapons Removal and Abatement provided a grant amounting USD $3,074,341 for clearance of 4,534,638 square meters of mine and ERW contaminated residential, agricultural and grazing land in different districts of Nangahar and Kandarhar Provinces of Afghanistan.

MDC deployed 7 Mine Dog Groups (MDGs), 2 Demining Teams (DT), 4 Community Based Demining Teams, 3 Community Based MDSs, 2 Mechanical De-mining Units and successfully cleared a total area of 4,886,999 square meters of planned minefields. A total of 819 different devices were found and safely destroyed.

Under Grant S-PMWRA-12-GR-1015, the United States Department of State, Bureau of Political Military Affairs, Office of Weapons Removal and Abatement provided a grant amounting USD $996,667 for clearance of 729,000 square meters of mine and ERW contaminated residential, agricultural and grazing land in the Nawzad District of Helmand Province of Afghanistan.

MDC deployed 5 Community Based Demining Teams and 1 Community Based Explosive Disposal Team, and successfully cleared a total area of 951,115 square meters of planned minefields. A total of 201 different devices were found and safely destroyed.

Under Grant S-PMWRA-13-GR-1018, the United States Department of State, Bureau of Political Military Affairs, Office of Weapons Removal and Abatement provided a grant amounting USD $1,500,000 for clearance of 2,598,686 square meters of mine and ERW contaminated residential, agricultural and grazing land in different districts of the Nangahar Province of Afghanistan.

MDC deployed 3 Mine Dog Groups and 2 Mechanical De-mining Units, and successfully cleared a total area of 2,987,686 square meters of planned minefields. A total of 471 different devices were found and safely destroyed.

SIGNIFICANT ACCOUNTING POLICIES

Note 3. Basis of Presentation
The accompanying special purpose financial statement (the "Statement") includes costs incurred under grants S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 to provide quality mine action services in Afghanistan for the period of April 1, 2011 to September 30, 2014. The Statement presents only a selected portion of MDC financial activities and records. It is not intended to and does not present the overall financial positon of MDC. The information in this Statement is presented in accordance with requirements specified by Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned grants. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the presentation of the basic financial statements.

Note 4. Basis of Accounting
The Statement reflects the funds received and costs incurred under the grants by PM/WRA-USDOS. The Statement and other related financial reports have been prepared on a modified cash basis of accounting. On this basis of accounting, grant income is recognized when received rather than when earned, while expenses are recognized when incurred rather than when paid.

Note 5. Capital Expenditure
Non-Expendable items purchased during project duration period are charged as expenses. However, a memorandum record is being maintained for management purposes.

Note6. Stock, Stores and Consumables
Consumable items, such as stationary and supplies are fully charged to the project as an expense at the time of purchase.

Note 7. Currency
The special purpose financial statement is presented in United States Dollars (USD). The funds are received by MDC in United States Dollars directly to the bank account. Transactions in currencies other than USD are translated to USD at the exchange rate prevailing in the market on the date transactions were executed, which generally were in Afghanis (AFNs). Any gain received or loss incurred from such transactions are recorded as part of the incurred expense. For the period reviewed the USD-AFN exchange rate ranged from AFN 46.20 to AFN 57.70 per 1 USD.

Note 8. Cost Incurred by Budget Category
The budget categories presented and associated amounts reflect the budget line items presented within the approved grant documents and amendments made later on. The costs incurred reflect the actual cumulative expenditures on the grants in USD.

Note 9. Revenues
Revenues on the Statement represent the amount of funds received in USD.

Note 10. Outstanding Balance
The outstanding balance presented on the Statement presents the revenues earned less costs incurred or charged to the project.

Notes to the Questioned Amounts Presented on the Special Purpose Financial Statement[4]

Note A: Questioned Costs – Personnel

Finding 2015-01 questions $72,303 of incurred payroll costs between April 1, 2011 and September 30, 2014 as a reasonable basis for the labor allocation billed to the project could not be determined because MDC runs multiple projects with multiple donors. We calculated $8,823 in indirect costs associated with the questioned payroll costs. As a result, we questioned the transactions as $81,126 in unsupported costs.

Note B: Questioned Costs – Travel and Supplies

Finding 2015-02 questions $15,777 in supplies for transactions that were missing supporting documents. We also calculated $1,877 in indirect costs associated with the questioned supplies costs. As a result, we questioned the transactions as $17,654 in unsupported costs.

[4] Alphabetic notes to the questioned amounts presented on the special purpose financial statement were developed by and are the responsibility of the auditor.

WILLIAMS ADLEY

Independent Auditor's Report on Internal Control

Leadership Team
Mine Detection Dog Center (MDC)
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Mine Detection Dog Center (MDC) contract numbers S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 for the period of April 1, 2011 to September 30, 2014; and have issued our report thereon dated November 12, 2015.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States, U.S. Government Accountability Office. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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.

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. The accompanying Schedule of Findings and Questioned

Amounts presents details on the internal control deficiencies (alternately, deficiencies in internal control) identified in this audit. We consider Finding 2015-01 to be a material weakness. We consider Finding 2015-02 to be a significant deficiency.

This report is intended solely for the information of MDC, United States Department of State and the Special Inspector General for Afghanistan Reconstruction (SIGAR), 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, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

Williams, Adley & Company-DC, LLP
Washington, D.C.
November 12, 2015

WILLIAMS ADLEY

Independent Auditor's Report on Compliance

Leadership Team
Mine Detection Dog Center (MDC)
Kabul, Afghanistan

Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, VA

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Mine Detection Dog Center (MDC) contract numbers S-PMWRA-11-GR-0013; S-PMWRA-11-GR-0017; S-PMWRA-12-GR-1014; S-PMWRA-12-GR-1015; S-PMWRA-13-GR-1005; and S-PMWRA-13-GR-1018 for the period of April 1, 2011 to September 30, 2014; and have issued our report thereon dated November 12, 2015.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States, U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

Compliance with agreement terms and laws and regulations applicable to MDC is the responsibility of MDC's management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of MDC's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our compliance tests disclosed one material instance of noncompliance, the effects of which are shown as questioned costs in the accompanying Schedule of Findings and Questioned Amounts under Finding 2015-01. We also noted non-material compliance findings, which are reported as Finding 2015-02, 2015-03, 2015-04, 2015-05 and 2015-06. We noted no instance of fraud, waste or abuse during the period audited.

We considered the material instance of noncompliance in forming our opinion on whether MDC's Statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 4 to the Statement, and this report does affect our report on the Statement dated November 12, 2015.

This report is intended solely for the information of MDC, United States Department of State and the Special Inspector General for Afghanistan Reconstruction (SIGAR), 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, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

Williams, Adley & Company-DC, LLP

Washington, D.C.
November 12, 2015

Schedule of Findings and Questioned Amounts

Finding 2015-01: Unsupported Payroll Costs (Material Weakness and Material Non-Compliance)

Criteria: OMB Circular A-122, under support of salaries and wages, it states that charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods.

Condition: We tested $113,996 of $4,455,296 in incurred payroll costs between April 1, 2011 and September 30, 2014. A total of $72,303 in direct payroll cost of the $113,996, or 63.4% of the payroll costs tested, were based on an unsupported allocation methodology. An additional $8,823 in indirect costs were associated with the unsupported allocated costs. MDC used budget allocations to determine the labor costs billed to the project for individuals who worked on multiple projects with multiple donors, which prevented the determination of a reasonable basis for the labor allocation billed to the project for the months tested. Further, MDC did not obtain prior approval of its labor allocation method in lieu of actual level of effort for individuals who worked on multiple grants. Prior to the closure of the audit MDC management submitted a request to the United States Department of State for retroactive consideration and approval of their payroll system, including the allocation method used for labor distribution under the grants (Please see Attachment E for a copy of this request).

***Cause*:** MDC did not develop and implement sufficient internal controls to ensure that appropriate documentation of payroll costs incurred for headquarters employees included the distribution of activity that represented a reasonable estimate of the actual work performed by the employees during the periods covered by the payroll costs incurred and reported for the project.

***Effect*:** The absence of sufficient and adequate after the fact reporting of the level of effort, or an acceptable allocation method, for individuals who worked on multiple projects during the months we tested resulted in $72,303 in incurred payroll costs and $8,823 in associated indirect costs that were not properly supported. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged and opportunities for waste, fraud, and abuse of government funds is increased. We estimate that cumulatively $2,824,658, or 63.4% of the total payroll costs may have been charged to the grants using an unapproved allocation methodology based our projection of results from the statistically valid sample we tested, which included a 95% confidence level and 10% tolerable error rate.

***Recommendation*:** We recommend that MDC:

1. Implement controls to record after the fact level of effort reporting for its employees charged to multiple grants or reasonable allocation methodology agreed to by MDC's cognizant agency.
2. Provide the State Department with adequate support for the $81,126 in questioned payroll costs in accordance with an acceptable cost allocation methodology if the State Department does not accept the request MDC sent for approval of its payroll system allocation method and does not relieve MDC of the questioned costs.
3. Reimburse the State Department for that portion of the $81,126 in questioned costs, and other allocated payroll costs under the grants for which adequate support could not be provided.

Finding 2015-02: Unsupported Disbursement Costs (Significant Deficiency and Non-Compliance)

***Criteria*:** Title 22 CFR, section 145.53, Retention and Access Requirements for Records, states that "financial reports, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the department".

***Condition*:** We tested $1,403,934 of $4,992,198 in non-payroll direct incurred costs between April 2011 and September 2014. During testing of travel and supplies, the following exceptions for $15,777 in incurred costs and $1,877 in related indirect costs were noted:

Questioned Costs related to Supplies

Questioned costs for support of supplies were a result of mainly two conditions: (1) documents requested had been misplaced in the years since the projects started and ended, therefore, no support could be located, and (2), several receipts did not have the acknowledgement from suppliers showing the items had actually been paid.

Grant(s)	Description	Unsupported Questioned Costs	Indirect Costs	Total Questioned Costs
S-PMWRA-11-GR-0013, S-PMWRA-13-GR-1005, S-PMWRA-12-GR-1014, S-PMWRA-13-GR-1018	Training Department Costs, Dog Costs, (Dog Food international), Vet. Department Costs, Training Department Costs	$15,777	$1,877	$17,654
Totals		$15,777	$1,877	$17,654

Cause: MDC did not develop and implement sufficient internal controls to ensure that appropriate documentation to support costs incurred was maintained and readily available for review.

Effect: In the absence of sufficient and adequate documentation for all disbursements tested, we could not determine that the unsupported costs charged to the State Department were reasonable. As a result, we questioned the allowability of $15,777 in incurred costs and $1,877 in associated indirect costs charged to the grants.

Recommendation: We recommend that MDC provide the State Department with records that clearly support the allowability of the $17,654 in questioned costs presented above that were charged to the State Department or reimburse the State Department those amounts for which appropriate support is not provided.

Finding 2015-03: Inventory Controls (Non-Compliance)

Criteria: Under 2 CFR, Subsection 215.34, the recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following information.

(i) A description of the equipment.

(ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.
(iii) Source of the equipment, including the award number.
(iv) Whether title vests in the recipient or the Federal Government.
(v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.
(vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).
(vii) Location and condition of the equipment and the date the information was reported.
(viii) Unit acquisition cost.
(ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

(2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

Condition: MDC did not provide documentation of its most recent physical inventory and the listing of all property, plant and equipment purchased with State Department funds or assigned to State Department activities. MDC also did not consistently capture the required information within their registers such as, model number of inventory, award number, and the ultimate disposition data was not recorded. Further, MDC did not provide evidence that it had conducted physical inventory inspections and reconciliations to equipment records at least once every two years as required.

Cause: MDC did not establish adequate written policy and procedures related to inventory management, which should have detailed these requirements. Further, MDC did not follow through on prior recommendations to improve its inventory management process as management did not institute and enforce timely corrective actions. Additionally, because the personnel responsible for maintaining inventory were not aware of the requirements for maintaining asset registers, the register did not capture the required information for assets purchased with grant funds.

***Effect*:** MDC does not have effective controls, including specific policies and procedures, over the inventory process. Therefore, there is less assurance that inventory records are accurate, complete and current, and there is increased risk that equipment could be lost, damaged or stolen, or otherwise made unavailable for project use.

Recommendation: We recommend that MDC develop and implement a corrective action plan that includes a revision of the formal, written policy and procedures to address inventory management controls such as record keeping, inventory counts, and reconciliations, which should ensure that asset records fully account for purchased assets in accordance with regulatory requirements. MDC should ensure its personnel responsible for inventory management are informed of, understand and execute grant-compliant inventory management requirements through further training and review of the revised policy and procedures.

Finding 2015-04: Financial Reporting (Non-Compliance)

Criteria: Under 22 CFR, Subsection 145.52 on financial reporting, grantees are required to report financial information using form SF-425 or SF-425a, or such other forms as may be approved by OMB.

According to the notice of awards, Special award conditions: Quarterly and Financial Reporting- all reports shall be submitted on or before the following end of the month following the month the quarter closed.

Example: S-PMWRA-12-GR-1014 stipulates the following due dates:
First Quarter (Apr-Jun 12): Due: July 31, 2012
Second Quarter (July-Sept 12): Due: October 31, 2012
Third Quarter (Oct-Dec 12): Due: January 31, 2013
Fourth Quarter (Jan –Mar 12): Due: April 30, 2013

Directions per FFR form SF-425 state that:

Cash disbursements are to be entered in field 10(b) as the cumulative amount of Federal fund disbursements (such as cash or checks) as of the reporting period end date. Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to sub recipients and contractors.

Condition: The Federal Financial Report (FFR) form SF-425 did not include disbursements under field 10(b) in the quarter ended September 30, 2013 for grants S-PMWRA-13-GR-1018 and 13-GR-1005. However, based on the general ledger, MDC should have reported cash disbursements for direct charges for goods and services, indirect expenses charged to the grant, and cash advances during this reporting period. These amounts were later reported on the financial report for the following quarter that ended on December 31, 2013.

Grant Number	From	To	net project disburse-ments per SF-425	Total Disbursement per GL	Difference
13-GR-1018	7/1/2013	9/30/2013	$0.00	$348,986.60	-$348,986.60
13-GR-1005	7/1/2013	9/30/2013	$0.00	$173,266.87	-$173,266.87

Further, seven exceptions for late filing were noted as shown in the following table.

Grant Number	From	To	Submission Due Date	Actual Submission Date	Days Overdue
11-GR-0013	7/1/2011	9/30/2011	10/31/11	11/17/11	17
11-GR-0013	10/1/2011	12/31/2011	1/31/12	2/7/12	7
11-GR-0013	1/1/2012	3/31/2012	4/30/12	5/1/12	1
11-GR-0017	7/1/2011	9/30/2011	10/31/11	11/17/11	17
11-GR-0017	10/1/2011	12/31/2011	1/31/12	2/7/12	7
11-GR-0017	1/1/2012	3/31/2012	4/30/12	5/1/12	1
12-GR-1014	1/1/2013	3/31/2013	4/30/13	5/1/13	1
13-GR-1005	4/1/2014	6/30/2014	7/31/14	8/27/14	27

Cause: MDC did not report accurate disbursements on the two grants' financial reports in question because MDC believed that the State Department did not have access to the required funding at the time of expenditure. MDC was notified that it could continue the proposed activities at its own risk. MDC continued the activities and recorded the actual expenditures as a liability of the State Department on its books for the period in which the costs were incurred and reported the disbursements the following quarter. MDC commented that the late report submissions were due to holidays and technical issues accessing the grants management government system.

Effect: Inadequate reporting of program expenses may result in overstated or understated financial reporting to the State Department. Untimely reporting of incurred costs may result in funds not being available for draw when requested. Additionally, inaccurate and untimely financial reporting diminishes the State Department's ability to properly monitor the awarded funds.

***Recommendation*:** We recommend that MDC develop controls to ensure that financial reporting is recorded correctly and timely, including the early filing of reports if there is a pending holiday that may impede timely reporting and to account for potential delays in accessing the site for report submission.

Finding 2015-05: No Withholding Tax (Non-Compliance)

***Criteria*:** According to Afghanistan tax law, Article 72, Withholding tax on contractors: (1) Persons who, without a business license or contrary to approved by-law, provide supplies, materials, construction and services under contract to government agencies, municipalities, state entities, private entities and other persons shall be subject to 7 percent fixed tax in lieu of income tax. This tax is withheld from the gross amount payable to the contractor; (2) Persons who have a business license and provide the services and other activities mentioned in paragraph (1) of this Article to the specified entities shall be subject to 2 percent contractor tax. The tax levied by this paragraph is creditable against subsequent tax liabilities; (3) The tax mentioned in paragraphs (1) and (2) of this Article shall be withheld by the payer from payment and shall be transferred to the relevant account within ten days. Contractors subject to this Article shall be required to, upon signing the contract, send a copy thereof to the relevant tax administration. Natural persons who, according to provision of paragraph (1) of Article 17 of this Law, earn taxable salaries shall be excluded from this provision.

***Condition*:** Seventy-five general ledger entries were reviewed including 1,585 sub-transactions, totaling $1,403,934 of direct incurred costs between April 2011 and September 2014. During disbursement testing the auditors noted 22 instances where taxes had not been deducted from suppliers.

***Cause*:** MDC did not have proper controls in place to ensure taxes were paid in accordance with Afghan law.

***Effect*:** MDC may be subject to fines and back payment of taxes by the Afghanistan government.

***Recommendation*:** We recommend that MDC implement controls to ensure taxes are withheld and paid in accordance with Afghan law.

Finding 2015-06: Account Misclassification (Non-Compliance)

Criteria: According to 22 CFR, section 145.21, a recipient's financial management system shall provide for accurate, current and complete disclosure of financial results of each federally-sponsored project or program in accordance with the reporting requirements of 22 CFR, 145.52. In addition, the recipients' financial management system shall provide for records that identify adequately the source and application of funds for federally-sponsored activities.

Condition: During disbursement testing the auditors noted 23 instances of costs for "Dog Facilities (Kennels, Shelters, Maintenance)" charged as expendable equipment and materials under "Premises cost" charged as "minor repair and maintenance". Although the amount misclassified was immaterial to the overall budget, these errors do not comply with required financial controls over the reporting of costs incurred.

Cause: MDC entered the cost incorrectly into its accounting system due to human error and inadequate supervisory review of the entries.

Effect: MDC has inaccurately classified amounts in its accounting system, which may result in less assurance concerning the reliability of MDC's financial records.

Recommendation: We recommend that MDC place stronger controls around its accounting system to ensure accurate posting of transactions under the correct accounting codes. These controls should include appropriate supervisory review and sign-off on every accounting entry.

Finding 2015-07: No "PAID" Stamp on Invoice (Internal Control Deficiency)

Criteria: It is a standard operating procedure within MDC's policy to stamp all the payment vouchers and supporting documents as "PAID" to indicate payment and to avoid double payment.

Condition: During disbursement testing the auditors noted 71 instances where the voucher or vendor invoice was not stamped as "PAID" after payment.

Cause: MDC did not properly enforce controls that were in place to minimize the risk of duplicate invoice payment.

Effect: MDC did not follow its own procedure, which increases the risk of making duplicate payments that may not be detected in a timely manner, and which may become difficult to recover.

Recommendation: We recommend that MDC enforce its internal control procedures to ensure compliance with good internal control practices, such as stamping invoices as paid and canceling the invoices so that they may not be submitted for payment again.

Attachment A – Consolidating Special Purpose Financial Statement

For the Period of April 1, 2011 to September 30, 2014

	S-PMWRA-11-GR-0013		S-PMWRA-11-GR-0017		S-PMWRA-12-GR-1014		S-PMWRA-12-GR-1015		S-PMWRA-13-GR-1005		S-PMWRA-13-GR-1018	
Revenues	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Revenue	$2,500,000	$2,500,000	$1,080,000	$1,080,000	$3,074,341	$3,074,341	$996,667	$996,667	$1,430,228	$1,430,228	$1,500,000	$1,500,000
Cost Element												
Personnel	$1,085,381	$1,052,505	$413,892	$395,990	$1,296,154	$1,301,049	$432,446	$447,175	$648,827	$623,637	$647,804	$634,940
Fringe	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Travel	$370,517	$370,839	$185,592	$177,742	$433,297	$426,716	$154,588	$154,919	$197,098	$201,277	$201,192	$190,305.
Equipment	$26,972	$15,289	$8,585	$6,431	$24,427	$23,868	$28,190	$28,190	$14,630	$14,540	$9,022	$9,232
Supplies	$270,255	$287,488	$72,808	$79,975	$339,957	$322,386	$67,882	$73,689	$199,690	$220,800	$169,964	$183,843
Contractual	$0	$0	$0	$0.00	$0	$0	$0	$0	$0	$0	$0	$0
Construction	$0	$0	$0	$0.00	$157,010	$120,000	$0	$0	$0	$0	$0	$0
Other	$496,875	$525,789	$278,680	$289,146	$523,496	$567,984	$209,397	$188,530	$191,548	$191,540	$312,018	$321,679
Total Direct Charges	**$2,250,000**	**$2,251,910**	**$959,557**	**$949,284**	**$2,774,341**	**$2,762,003**	**$892,503**	**$892,503**	**$1,251,793**	**$1,251,793**	**$1,340,000**	**$1,340,000**
Indirect Costs (NICRA)	$250,000	$248,089	$120,443	$130,717	$300,000	$312,338	$104,164	$104,164	$178,435	$178,435	$160,000	$160,000
TOTAL Cost	**$2,500,000**	**$2,499,999**	**$1,080,000**	**$1,080,001**	**$3,074,341**	**$3,074,341**	**$996,667**	**$996,667**	**$1,430,228**	**$1,430,228**	**$1,500,000**	**$1,500,000**
Outstanding Balance (deficit)		**$1**		**($1)**		**$0**		**$0**		**$0**		**$0**

Attachment B – Prior Audit Reports Recommendations and Current Status

Prior audits, assessments or reviews that we considered applicable to the scope of our work were obtained and read to ensure that there were no significant deficiencies or material weaknesses noted. We did not note any significant deficiencies or material weaknesses in the prior audit reports. For non-significant deficiencies affecting the cooperative agreement, we performed test work to ensure proper corrective action was taken to resolve the impact of the deficiencies on the project. From a total of 3 prior audit findings, which by definition were not significant deficiencies or material weaknesses, we concluded that 1 of the prior audit findings was adequately addressed.

Rafaqat Babar & Company (RBCO) and Alliot Gulf Limited prior audits of MDC

We obtained and reviewed prior audit reports of MDC, which included: audits of grant grants S-PMWRA-11-GR-0013 and 11-GR-0017 for the period between April 1, 2011 and March 31, 2012 performed by Alliott Gulf Limited; and RBCO audits of grants PMWRA-12-GR-1014 and PMWRA-12-GR-1015 for the period of April 1, 2012 through March 31, 2013, and grants PMWRA-13-GR-1005 and PMWRA-13-GR-1018 for the period between April 1, 2013 and September 30, 2014. We noted the following results:

Prior audit reports for the April 1, 2011 through March 31, 2012 audit reports did not disclose any findings in the reports, but did include a management letter finding relating to inventory management. The audit reports for the period April 1, 2012 through March 31, 2013 and April 1, 2013 through September 30, 2014 had disclosed no findings within the actual report outside of the management letters.

The management letter observed three procurements lacking proper support with dates, letterhead or comparison support for quotations received. The recommendation was that appropriate authority should review the documentation of all the procurements made by management to ensure that all required steps in the procurement policy are carried out and adequately documented.

Current Status: We concluded that MDC did take adequate corrective action to address this recommendation as we did not note any related exceptions in our procurement testing.

Another observation disclosed in the management letter stated that some vouchers were not stamped "Paid" after payment. The recommendation was to start following the procedure and mark the vouchers as paid.

Current Status: This finding remains unresolved and is included as a finding in this audit report. We noted that MDC did not take adequate corrective action to address this recommendation during our testing of disbursement vouchers.

The final prior observation disclosed, in both a management letter and audit report, the lack of proper controls over inventory. The missing controls were that a periodic physical verification of fixed assets was not occurring and MDC lacked the ability to identify obsolete and damaged assets. Further, instances were noted where vouchers for goods did not have receipt evidence attached and equipment was not correctly tagged with the donor's identification. It was recommended that management ensure physical verification of all assets occurred randomly each quarter and that field offices were covered once in each calendar year; donors' inventory be correctly tagged with identifiers; and that the inventory department carefully check the items received and complete a goods received form.

Current Status: During the current audit, the auditors noted continued lack of controls around inventory, namely that MDC did not consistently capture required information within its registers, which is a non-compliance issue that we considered a reportable compliance deficiency. The missing information included: model number of inventory; grant number; and the ultimate disposition of damaged or obsolete assets. As a result, we concluded that MDC had not taken adequate corrective action to address all the issues in the prior recommendation.

Attachment C – Management Response to Findings and Recommendations

Finding 2015-01: Unsupported Payroll Costs (Material Weakness and Non-Compliance):

MDC management respects auditors' opinion on the subject of payroll cost on the grounds of Non-Compliance to OMB. MDC accepts that the time sheets at its Head Quarter doesn't indicate the number of hours each employee has spent on each project, however, there are systems and procedures in place and maintained in the organization to ensure fair and transparent distribution of time, effort and cost of Head Quarter employees on different projects. Proper payrolls, attendance books, time sheets, payment records and staff members' job descriptions (TORs) are available and they were presented to the auditors.

The systems practiced at MDC for Head Quarter personnel cost distribution have been developed by the UN and Germany and other donors to be fair and fulfill all projects' requirements. Multi Donor situation had put the organization in a situation to conform to laws and regulations of different countries and at the same time be fair and reasonable.

Some Donors like Federal Republic of Germany required that they can absorb the indirect personnel cost based on the ratio of their funding over the total fund MDC received in a financial period but to be sure that funding uncertainties and delays from other donors doesn't affect the key functions of their project. Therefore, at Head Quarter level they picked a number of positions and funded 100% of their salaries while they were certain that the staff they were funding work for all projects including USDOS. A letter from Medico International explaining this issue was already presented to WRA and the Auditors.

It would have been fair if the auditors invest some time to see why the organization couldn't adjust its system to maintain timesheets in HQ in a format mentioned in OMB circulars and to see if such non-compliance was actually in favor of [State Department] projects or in favor or other projects. It is unfair to question costs on the basis of partial information extracted from a system. It would have been convenient to see MDC total HQ payroll for particular months and compare [State Department] projects ratios to decide on costing reasonability.

Anyway, MDC understands the importance of compliance to the rules and regulations concerning federal funds and will immediately improve its systems to be 100% in compliance to the available regulations. However, for the past projects considering the situation, nature of MDC as nonprofit organization and the facts discussed above MDC approached WRA-[State Department] to approve the personnel costs incurred under headquarter.

Finding 2015-02: Unsupported Disbursement Costs (Significant Deficiency and Non-Compliance)

1. A considerable portion of unsupported cost mentioned in the report is stationaries, and the observation is that MDC has not provided the GRN. We have discussed with the auditors that it is true that there is no GRN filed for the stationaries, however, there are adequate alternate systems in place to ensure the transparency of the process. Store registers and issue forms are available. MDC provided all its registers, issue forms and books maintained for stationaries and office supplies to auditors through email. We request that the auditors examine and consider the documents presented.

2. The other items for which GRN unavailability is a concern we have pulled out already a considerable number of vouchers and they are sent along with this report for consideration.

3. For food expenditures for trainers, kitchen register, employees' attendance, food material register, quotations, comparative statements, purchase orders and receipts have been pulled out. We sent 5 months documents to the auditors and requested if they are available in Kabul MDC would deliver the hard copies of the remaining documents but we did not receive a response at that time, the remaining documents in this category are sent along with this report.

4. There are many small items purchased such gas for heaters, the amounts are too low and the auditors have required MDC to provide a receipt besides the invoice. Considering the circumstances in Afghanistan for such small amounts ($ 10, $15, $21,) it is not possible to obtain a receipt besides the invoice. The supplier stamps the invoice and MDC also stamps the invoice as paid and the payment is made out of petty cash. We hope such items be removed from the list.

5. For some other small amounts such as $21, $18, $15, the auditors observation states that a purchase order is not available while MDC logistics SOP requires that the organization should obtain three quotations from three suppliers when the amount is equal or more than USD 500, for which a comparative statement should be prepared based on obtained quotations and a purchase order is to be issued. Most of the listed transactions are much lower than the USD 500 Threshold.

Finding 2015-03: Inventory Controls (Non-Compliance)

MDC appreciates auditors' opinion in this regard and the organization is committed to further improve its inventory database in conformity to the regulations mentioned in the report. An action plan will be developed, designed, shared and followed up in the coming 30 days.

Finding 2015-04: Financial Reporting (Non-Compliance)

MDC understands the importance of providing on time and accurate financial information to its donors and other [stakeholders].

1. Both GR-13-1018 and GR-13-1005 awards were actually proposed and approved for 12 months, however initially the State Department had access to limited amount of funds. The organization was notified by WRA that it may continue the proposed activities at its own risks for six more months stretching projects timelines to end of September 2014. MDC continued the activities and the technical reports verify this portion. In financial portion of this decision MDC was allowed (PMS) to draw down and report a maximum of USD 100,000 on project 1018 and 84,186 under project 1005. The remaining actual expenditure that was a liability of USDOS was settled in the next quarter as we got the approval for the remaining portion of the fund in October 2013. So it is basically the technical issue with PMS that restricts reporting in some instances. All necessary documents regarding this issue were emailed to the auditors when the issue was raised.

2. Short delays (Exceptions) in filing the reports are caused by unexpected holidays or work interruptions. 7 and 17 days delays listed are there due to technical issues in accessing the PMS.

3. Listed exception is mainly indicated projects from 2011 and it means that MDC has tried to file timely financial reports from 2012 onwards and the exceptions after 2012 are mainly caused by technical issues such as delays in approvals.

Finding 2015-05: No Withholding Tax (Non-Compliance)

Appreciating auditors' opinion and recommendation on this subject, Budget limitations and some other problems in the past made it difficult for the organization to withhold taxes from suppliers. However, currently the issue is of the top priority for MDC, the systems and procedures are developed to make sure 100% compliance of the organization to tax law and regulations.

Finding 2015-06: Account Misclassification (Non-Compliance)

Observation and the recommendation is appreciated. In some instances the data processors mistakenly misclassified the expenditure. MDC is enhancing its systems and procedures to avoid such issues in the future.

Finding 2015-07: No "PAID" Stamp on Invoice (Internal Control Deficiency)

Observation and the recommendation is appreciated. In some instances the invoices have escaped the eye and "PAID" stamp of MDC finance controller. MDC is enhancing its systems and procedures to avoid such issues in the future.

Attachment D – Auditor's Response to Management Comments

Williams Adley, in consideration of the views presented by MDC management, presents the following rebuttal and clarification to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the findings and recommendations included in this report. In those instances where management's response did not provide new information and support to modify the facts and circumstances of the report findings, we have not provided a rebuttal or clarification.

Finding 2015-01

Management states in its response to this finding that MDC accepts that the time sheets at its headquarters did not indicate the number of hours each employee spent on each project. Management asserted, however, that there are systems and procedures in place and maintained in the organization to ensure fair and transparent distribution of time, effort and cost of headquarters employees on different projects. Management continued to explain that the organization could not adjust its system to maintain timesheets in headquarters in a format mentioned in OMB circulars for the past projects due to its efforts to conform to laws and regulations of different donor countries. Nonetheless, MDC approached [PM/WRA] to approve the personnel costs incurred at MDC headquarters. This request may be found as Attachment E to this audit report. Based on management's confirmation of non-compliance with the requirements relating to payroll allocations, the questioned costs remain as stated. The allowability of the costs incurred should be determined by the State Department with consideration of MDC's request per Attachment E and the labor reporting requirements of OMB Circular A-122.

Finding 2015-02

Management states that the questioned costs under this finding should be removed for several reasons including: adequate alternate systems in place to ensure the transparency of the process for demonstrating receipt of stationeries; documentation that was made available for review subsequent to fieldwork; small purchases for which receipts generally are not available; and small purchases that do not require purchase orders. We reviewed the supplemental documentation that was submitted subsequent to fieldwork and as time permitted, and removed $7,838 in previously questioned costs and $953 in associated indirect costs. We recalculated the total questioned costs for unsupported disbursements as $17,654 based on management's response.

Attachment E – MDC's Request for Approval of Payroll System

د ماینونو د شنډولو مرکز
د افغانستان لپاره د ملل متحد
د ماین پاکولو پروګرام

MDC

MINE DETECTION CENTRE
UN-MINE ACTION PROGRAM FOR AFGHANISTAN

مرکز خنثی سازی ماین ها
پروگرام مین پاکی ملل متحد
برای افغانستان

Dear Rodney Robideau:

As you are in the picture MDC 6 implemented projects (GR-11-013, GR-11-017, GR-12-1014, GR-1015, GR 13-1018, GR-13-1005) were audited by SIGAR during the past 3 months. An exit telephonic conference was held on 16th November and an agenda on the findings was distributed prior to the exit conference.

The audit was tough and very detailed as it was including projects as old as four and half years and besides that the focus of the audit was on costs that had shared nature such as indirect charges/overheads and dog costs. These costs and their related documents were audited several times by projects auditors and other donors' audits due to which for some Limited transactions partial supporting documents were misplaced. Anyway, MDC is committed to locate, organize and provide all required documents (a considerable number of documents already presented and they are being evaluated now) however, it takes a bit of time to complete the list and clarify the issues raised under unsupported costs.

One important issue that requires your support and assistance is **Finding 2015-01** amounting USD 72,303 reflected on Page 6 of the Final Agenda on the subject of personnel costs incurred under Head Quarter, auditors assume that the costs incurred are not in compliance to **OMB Circular A-122** which requires Time Sheets that indicate the amount of time each employee spends on particular projects.

MDC accepts that the time sheets at its Head Quarter doesn't indicate the number of hours each employee has spent on each project, however, there are systems and procedures in place and maintained in the organization to ensure fair and transparent distribution of time, effort and cost of Head Quarter employees on different projects. Proper payrolls, attendance books, time sheets, payment records and staff members' job descriptions (TORs) are available and they were presented to the auditors.

The systems practiced at MDC for Head Quarter personnel cost distribution have been developed by the UN and Germany and other donors to be fair and fulfill all projects' requirements. Multi Donor situation had put the organization in a situation to conform to laws and regulations of different countries and at the same time be fair and reasonable.

Some Donors like Federal Republic of Germany required that they can absorb the indirect personnel cost based on the ratio of their funding over the total fund MDC received in a financial period but to be sure

MDC HEAD QUARTER | JALALABAD FIELD OFFICE | KABUL FIELD OFFICE | KUNDUZ FIELD OFFICE | KANDAHAR FIELD OFFICE | LOGAR FIELD OFFICE

Jalalabad City | Kabul City | Kunduz City | Kandahar City | Logar City

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DEMINING

that funding uncertainties and delays from other donors doesn't affect the key functions of their project. Therefore, at Head Quarter level they picked a number of positions and funded 100% of their salaries while they were certain that the staff they were funding work for all projects.

MDC as an organization tried to be reasonable and in compliance with all donors' requirements. A glance at the MDC HQ cost distribution system and data gives a full picture of the organization at HQ level and it indicates that MDC has been reasonable in distribution of HQ cost to USDOS projects. Donors with more flexibility of indirect cost have been charged higher and USDOS projects have been charged only to the level allowed in projects budgets. The following table illustrates the ratio of funding of USDOS-Projects in comparison to other donors' projects for Apr 2013 to Sep 2014. Considering the following table if MDC had to distribute the costs based on employees' working hours dedicated to USDOS projects we would had faced considerable overspent indirect costs or we had to reduce the capacity to be under the ceiling which would negatively affect the projects.

PARTICULARS	APR-13 TO SEP-14				TOTAL
	GR-1018	GR-1005	GR-1011	OTHERS	
FUND	1,500,000	1,430,228	1,166,000	3,787,289	7,883,517
Ratio of projects fund over total fund	19%	18%	15%	48%	100%
OVERHEADS/INDIRECT CHARGES	160,000	178,435	174,451	651,833	1,164,719
Ratio of Indirect Charges	14%	15%	15%	56%	100%

MDC understands the importance of compliance to the rules and regulations concerning federal funds and will immediately improve its systems to be 100% in compliance to the available regulations. However, for the past project considering the situation, nature of MDC as nonprofit organization and the facts discussed above I would like to ask for your support in approving the personnel costs incurred under headquarter amounting USD 72,303.

In our conference the auditors asked that if you WRA/USDOS approves that the system has been reasonable they would clarify the issue and MDC won't be asked to refund the amount.

Your consideration and support is highly appreciated in Advance.

Best regards

Mohammad Shohab Hakimi

Director MDC

Kabul-Afghanistan

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